ETHIOPIAN™
INVESTMENT
HOLDINGS

Ethiopian Investment Holdings
Consolidated financial statements
For the year ended 30 June 2023

Ethiopian Investment Holdings
Consolidated financial statements
For the year ended 30 June 2023
Contents

Board, management, professional advisers and registered office

Board of Directors

H.E. Mr. Temesgen Tiruneh	Board Chairperson
H.E. Professor Berhanu Nega	Board Member
H.E. Dr. Fitsum Assefa	Board Member
H.E. Mrs. Hanna Arayaselassie	Board Member
H.E. Dr. Eyob Tekalign	Board Member
Dr. Tegegnework Gettu	Board Member
Dr. Zeleke Temesgen	Board Member

Executive management

Dr. Brook Taye	Chief Executive Officer
Ms. Meleket Sahilu	Deputy Chief Executive Officer- Investment
Mr. Habtamu H/Michael	Deputy Chief Executive Officer- Portfolio Management
Mr. Rediet Getachew,FCCA	Chief Financial Officer

Independent auditor
Audit Services Corporation
Addis Ababa
Ethiopia

Corporate office
Hilcoe Building,
5th Floor, General Wingate Street,
Arada sub-city, Woreda 09,
Addis Ababa, Ethiopia.

Principal bankers
Commercial Bank of Ethiopia
P.O.Box 255
Addis Ababa
Ethiopia

Board Secretary
Mrs. Mulumebet Tilahun

The board of directors submit their report together with the financial statements for the period ended 30 June 2023 to the Office of the Prime Minister.

Incorporation and address

Ethiopian Investment Holdings (EIH) (the "Company" or "EIH") is a Public Holding Company incorporated in Ethiopia by Proclamation No. 1263/2021 issued by the Federal Democratic Republic of Ethiopia and Regulation No. 487/2022 issued on January 31, 2022. The registered office of the Company is located in Arada Sub-City, Addis Ababa.

The Company's address is as below:
Hilcoe Building, 5th Floor
General Wingate Street
P.O. Box 4353
Addis Ababa, Ethiopia
Tel. +251-11-170-4570
Website: www.eih.et
Email: info@eih.et

Principal activities

The Company's principal activities is to:

a) manage the state's commercial assets, including public assets, tangible and intangible national assets, and subsidiaries.
b) Create long-term value for Ethiopia by transforming the country's resources into assets that generate wealth.
c) Attract investment by establishing a co-investment platform with global investors.
d) Drive economic transformation and create jobs by harnessing the growth potential of Ethiopia's population.

Results and dividends

The Group's results for the year ended 30 June 2023 are set out on page 6. The profit for the year has been transferred to retained earnings. The summarised results are presented below.

	2023 **Birr'000**
Gross profit	229,312,160
Net profit for the year	91,172,104
Other comprehensive income net of taxes	9,481,649
Total comprehensive income for the year	**100,653,753**

Board of directors

The board members who held office during the year and to the date of this report are set out on page 3.

H.E. Mr. Temesgen Tiruneh
Board Chairperson
March - 2026

Statement of board's responsibilities

In accordance with the Financial Reporting Proclamation (No. 847/2014), the Accounting and Auditing Board of Ethiopia (AABE) has directed the Group to prepare financial statements in accordance with IFRS Accounting Standards as issued by the IASB.

The Company's board of directors is responsible for ensuring proper books of accounts are kept.

To enable the board to meet this responsibility, the board and executive management implement systems of internal control, accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
Nothing has come to the attention of the board to indicate that the Group will not remain a going concern for at least twelve months from the date of this statement.

Signed on behalf of the board of directors:

H.E. Mr. Temesgen Tiruneh
Board Chairperson
March - 2026

Statement of profit or loss and other comprehensive income

	Notes	2023 Birr '000
Revenue from contracts with customers		
Non-interest revenue	5(a)	825,487,039
Cost of revenue	6	(641,028,083)
Net interest income		
Interest income calculated using effective interest rate	5(b)	88,247,239
Interest expenses	5(b)	(44,728,009)
Insurance service result		
Insurance revenue	5(c)	6,243,533
Insurance service expense	5(c)	(2,455,397)
Net expenses from reinsurance contracts held	5(c)	(2,454,162)
Gross profit		**229,312,160**
Investment income	7	277,389
Other income	8	25,068,959
Impairment losses /(Reversal) on financial assets		(10,601,416)
Gain/loss on foreign exchange	10	(4,510,603)
General and administrative expenses	9(a)	(109,624,793)
Selling and distribution expense	9(b)	(1,580,884)
Operating profit		128,340,812
Finance income	11(a)	1,536,897
Finance costs	11 (b)	(18,762,510)
Finance costs net		(17,225,613)
Share of profit of associates	18	116,836
Profit before income tax		111,232,035
Tax expense	12(a)	(20,059,931)
Net profit for the year		**91,172,104**
Profit for the year attributable to:		
Equity holders of the company		91,167,532
Non-controlling interest		4,572
		91,172,104
Other comprehensive income (OCI)		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	35	9,458,533
Share of other comprehensive income of investments accounted for using the equity method		-
Income tax impact		-
Items that will not be reclassified to profit or loss:		
Remeasurement gain/(loss) on post employment benefits obligations	29	(46,226)
Changes in the fair value of equity investments at FVOCI	35	90,712
Other Comprehensive Income	35	1,720
Income tax impact	35	(23,090)
		9,481,649
Total comprehensive loss for the period		**100,653,753**
Total comprehensive income for the period is attributable to:		
Equity holders of the company		100,649,181
Non-controlling interest		4,572
		100,653,753

The notes on pages 10 to 73 are an integral part of these financial statements.

Statement of financial position

	Notes	30 June 2023 Birr '000
ASSETS		
Non current assets		
Property, plant and equipment	13	652,947,980
Investment properties	14	61,145,813
Right-of-use assets	16	151,273,447
Intangible assets	17	3,478,695
Investment in associates	18	2,384,825
Reinsurance contract assets	28	3,663,119
Investment securities	19	790,746,537
Loans and advances at amortized cost	20	327,926,533
Standing deposits	21	26,793,760
Deferred tax assets	15	11,995,500
		2,032,356,208
Current assets		
Biological assets	22	5,642,726
Inventories	23	91,819,120
Contract assets	5(b)	9,397,387
Trade and other receivables	24	359,366,265
Cash and cash equivalents	25	309,274,996
Non-current assets held for sale	26	47,070
		775,547,564
Total assets		**2,807,903,772**
EQUITY AND LIABILITIES		
LIABILITIES		
Non-current liabilities		
Borrowings	27	337,301,402
Lease liabilities	16	121,847,089
Employee benefit obligations	29	14,033,655
Insurance contract liabilities	28	7,734,126
Deferred tax liabilities	15	14,405,169
Deposits at amortized cost	30	946,292,106
		1,441,613,547
Current liabilities		
Borrowings	27	225,124
Employee benefit obligations	29	3,350,869
Trade and other payables	31	371,978,579
Contract liabilities	5(b)	140,649,700
Provisions	32	7,194,119
Lease liabilities	16	22,250,076
Current tax payable	12(c)	23,610,221
		569,258,688
Total liabilities		**2,010,872,235**
Equity attributable to owners		
Paid up Capital	33	625,668,910
Capital reserve	34	84,144,955
Defined benefits reserve	36	(48,426)
Fair Value (OCI) reserve	36	69,822
Legal reserve	35	5,975,377
Foreign currency translation reserve	36	9,458,533
Retained earnings	37	71,702,186
Non-controlling interest		60,180
Total equity		**797,031,537**
Total equity and liabilities		**2,807,903,772**

The notes on pages 10 to 73 are an integral part of these financial statements.

The financial statements on pages 6 to 73 were authorised for issue on 14 March 2026 and were signed by:

Dr. Brook Taye Chief Executive Officer 14 March - 2026	H.E. Mr. Temesgen Tiruneh Board Chairperson 14 March - 2026	Mr. Rediet Getachew,FCCA Chief Financial Officer 14 March - 2026

Ethiopian Investment Holdings
Consolidated financial statements
For the year ended 30 June 2023
Statement of changes in equity

	Notes	Paid up Capital	Capital reserve	Defined benefits reserve	Fair Value (OCI) reserve	Legal reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
		Attributable to the owner of Ethiopian Investment Holdings									
		Birr '000	Birr '000	Birr '000	Birr '000	Birr '000	Birr '000	Birr '000	Birr '000	Birr '000	Birr '000
As at 1 July 2022		**625,668,910**	-	-	-	-	-	-	**625,668,910**	**67,190**	**625,736,100**
Profit for the period		-	-	-	-	-	-	91,167,532	**91,167,532**	4,572	**91,172,104**
Other comprehensive income:											
Remeasurement gain/(loss) on post employment benefits obligations net of tax	29	-	-	(48,426)		-	-	-	**(48,426)**	-	**(48,426)**
Changes in the fair value of equity investments at FVOCI net of tax	35	-	-	-	69,822	-	-	-	**69,822**	-	**69,822**
Exchange differences on translation of foreign operations net of tax	35	-	-	-	-	-	9,458,533	-	**9,458,533**	-	**9,458,533**
		-	-	(48,426)	69,822	-	9,458,533	-	9,479,929	-	9,479,929
Total comprehensive income / (loss) for the period		**-**	**-**	**(48,426)**	**69,822**	**-**	**9,458,533**	**91,167,532**	**100,647,461**	**4,572**	**100,652,033**
Transaction with owner in their capacity as owner :											
Transfers from retained earnings to legal reserve						5,975,377		(5,975,377)	**-**		**-**
Contributions to capital reserve by owners of the group		-	99,997	-	-	-	-	-	**99,997**	-	**99,997**
Prior period adjustments**			1,440,960	-	-	-	-	-	**1,440,960**	26	**1,440,986**
Dividends provided for or paid		-	-	-	-	-	-	(13,489,969)	**(13,489,969)**	(11,608)	**(13,501,577)**
Loans assumed by the owner of the group		-	82,603,998	-	-	-	-	-	**82,603,998**	-	**82,603,998**
As at 30 June 2023		**625,668,910**	**84,144,955**	**(48,426)**	**69,822**	**5,975,377**	**9,458,533**	**71,702,186**	**796,971,357**	**60,180**	**797,031,537**

The notes on pages 10 to 73 are an integral part of these financial statements.

Statement of cash flows

	Notes	2023 Birr '000
Cash flows from operating activities		
Cash generated from operations	39 (a)	201,021,220
Tax paid	12(c)	(22,271,995)
Interest paid on borrowings	27	-
Interest paid on leases	16	(4,804,912)
Net cash (outflow)/inflow from operating activities		**173,944,313**
Cash flows from investing activities		
Purchase of property, plant and equipment	13	(108,618,017)
Proceeds on disposal of property plant and equipment	13	-
Proceeds on disposal of non-current assets held for sale	26	1,001,119
Purchase of intangible assets	17	(666,703)
Purchase of biological assets	22	(18,302)
Purchase of investment property	14	(1,708,293)
Investment in associates	18	-
Acquisition of investments	19	-
Proceeds on sale of investments	19	-
Net cash (outflow)/inflow from investing activities		**(110,010,196)**
Cash flows from financing activities		
Proceeds from borrowings	27	58,619,205
Repayments of borrowings	27	(109,318,853)
Payment of lease liabilities	16	(12,241,540)
Capital contributions		99,997
Dividends paid		(13,489,969)
Net cash (outflow)/inflow from financing activities		**(76,331,160)**
Net (decrease)/increase in cash and cash equivalents		**(12,397,043)**
Cash and cash equivalents at the beginning of the year	25	335,002,742
Effects of exchange rate changes on cash and cash equivalents		41,389
Cash and cash equivalents at the end of the year	25	**322,647,088**

The notes on pages 10 to 73 are an integral part of these financial statements.

Ethiopian Investment Holdings
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1 General information

Ethiopian Investment Holdings ("the Group") was established as a Public Holding Company incorporated in Ethiopia by Proclamation No. 1263/2021 issued by the Federal Democratic Republic of Ethiopia and Regulation No. 487/2022 issued on January 31, 2022.

The Company's registered office is at:
Hilcoe Building,
5th Floor, General Wingate Street,
Arada sub-city, Woreda 09,
Addis Ababa, Ethiopia.

These consolidated financial statements include the results of operations and financial position of the Company and its subsidiaries (together referred to as "the Group").

The consolidated financial statements for the year ended 30 June 2023 were authorised for issue in accordance with a resolution of the Board of Directors on 14 March 2026.

2 A) Basis of Preparation

Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Group financial statements comprise the Consolidated statement of profit or loss and other comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and the notes to the consolidated financial statements.

Basis of measurement

The Consolidated financial statements have been prepared in accordance with the going concern principle under the historical cost concept except for the following significant items:

1 Equity financial instruments designated at fair value through other comprehensive income;
2 Non-current assets held for sale measured at lower of their carrying amounts and fair value less costs to sell;
3 The liability for defined benefit obligations is recognized as the present value of the defined obligation, plus unrecognized actuarial gains less unrecognized past service cost and unrecognized actuarial losses.

The consolidated financial statements are presented in Ethiopian Birr and all values are rounded to the nearest thousand (ETB' 000), except otherwise indicated. The Gorup has prepared the financial statements on the basis that it will continue to operate as a going concern.

Ethiopian Investment Holdings

2 A) Basis of Preparation (continued)

Changes in Accounting Policies and Disclosures

New Standards, Amendments, Interpretations Issued but not yet Effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods. The Group has not early adopted the following new or amended IFRS Accounting Standards in preparing these consolidated financial statements:

New and Amendments to Standards	**Effective for periods beginning on or**
Non-current liabilities with covenants - Amendments to IAS 1	1 January 2024
Lease liability in a sale and leaseback - Amendments to IFRS 16	1 January 2024
Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7	1 January 2024
Lack of exchangeability - Amendments to IAS 21	1 January 2025
Classification and Measurement of Financial Instruments - Amendments to IFRS 9 and IFRS 7	1 January 2026
Contracts Referencing Nature-dependent Electricity - Amendments to IFRS 9 and IFRS 7	1 January 2026
IFRS 18, 'Presentation and Disclosure in Financial Statements'	1 January 2027
IFRS 19, 'Subsidiaries without Public Accountability: Disclosures'	1 January 2027

Assessment of the new and amended IFRS Accounting Standards

The Group's management has assessed the new and amended IFRS Accounting Standards and they have concluded that the new and amended accounting standards are not expected to have a significant impact on the Group's consolidated financial statements, other than the IFRS Accounting Standards below:

i) IFRS 18 Presentation and Disclosure in Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements and applies for annual reporting periods beginning on or after 1 January 2027. IFRS 18 introduces the following key new requirements:

- Entities are required to classify all income and expenses into five categories in the statement of profit or loss, namely the operating, investing, financing, discontinued operations and income tax categories. Entities are also required to present a newly-defined operating profit subtotal.
- Management-defined performance measures (MPMs) are disclosed in a single note in the financial statements.
- Enhanced guidance is provided on how to group information in the financial statements.

In addition, all entities are required to use the operating profit subtotal as the starting point for the statement of cash flows when presenting operating cash flows under the indirect method.
The Group is still in the process of assessing the impact of the new accounting standard, particularly with respect to the structure of the Group's statement of profit or loss, the statement of cash flows and the additional disclosures required for MPMs. The Group is also assessing the impact on how information is grouped in the financial statements, including for items currently labelled as 'other'.

ii) IFRS 19 Subsidiaries without Public Accountability: Disclosures

In May 2024, the IASB issued IFRS 19, which allows eligible entities to elect to apply its reduced disclosure requirements while still applying the recognition, measurement and presentation requirements in other IFRS accounting standards. To be eligible, at the end of the reporting period, an entity must be a subsidiary as defined in IFRS 10, cannot have public accountability and must have a parent (ultimate or intermediate) that prepares consolidated financial statements, available for public use, which comply with IFRS accounting standards. IFRS 19 will become effective for reporting periods beginning on or after 1 January 2027, with early application permitted.
As the Group is assessed by management to have public accountability, it is not eligible to elect to apply IFRS 19. However, the Group is assessing which of its subsidiaries is eligible to apply IFRS 19.

2 B) Material Accounting Policies

This note provides a list of other potentially material accounting policies adopted in the preparation of these consolidated financial statements to the extent that they have not already been disclosed in the other notes above. These material accounting policies set out below have been applied consistently to all periods presented in this consolidated financial statement.

2.1 Principles of consolidation and equity accounting

i. Subsidiaries

The Group has 26 subsidiaries in Ethiopia. The consolidated financial statement incorporate the financial statements of the holding and 26 entities controlled by the holding and its subsidiaries (together referred to as the Group or individually as Group entities). Subsidiaries are all entities over which the group has control. The group controls an entity where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date when control ceases.

Name	Effective Interest (%)	Place of Incorporation and Operation	Principal Activity
Birhanena Selam Printing Enterprise	100%	FDR Ethiopia	Printing Business
Chemical Industry Corporation	100%	FDR Ethiopia	Chemical
Commercial Bank of Ethiopia	100%	FDR Ethiopia	Commercial Bank
Development and Hotel Company	100%	FDR Ethiopia	Hospitality Business
Education Material Production and Development Ent.	100%	FDR Ethiopia	Education Material Production
Ethio Telecom	100%	FDR Ethiopia	Telecommunication
Ethiopian Agricultural Business Corp.	100%	FDR Ethiopia	Agricultural Products Supply
Ethiopian Airlines Group	100%	FDR Ethiopia	Airlines
Ethiopian Construction Design and Supervision	100%	FDR Ethiopia	Construction
Ethiopian Construction Works Corp.	100%	FDR Ethiopia	Construction
Ethiopian Electric Utility	100%	FDR Ethiopia	Electricity
Ethiopian Insurance Corporation	100%	FDR Ethiopia	Insurance
Ethiopian Mineral Petroleum and Biofuel Corp.	100%	FDR Ethiopia	Mining
Ethiopian National Lottery	100%	FDR Ethiopia	Gaming and Lottery
Ethiopian Petroleum Supply Enterprise	100%	FDR Ethiopia	Petroleum Supplies
Ethiopian Pulp and paper S.co.	70%	FDR Ethiopia	Paper production
Ethiopian Shipping and Logistic Service Enterprise	100%	FDR Ethiopia	Shipping and Logistic Services
Ethiopian Sugar Industry Group	100%	FDR Ethiopia	Sugar Manufacturing and Supply
Ethiopian Toll Roads Enterprise	100%	FDR Ethiopia	Toll Roads Service
Ethiopian Tourist Trading Enterprise	100%	FDR Ethiopia	Tourism
Ethiopian Trading Business Corp.	100%	FDR Ethiopia	Merchandising
Federal Housing Corporation	100%	FDR Ethiopia	Real Estate and Renting
Genet Hotel Enterprise	100%	FDR Ethiopia	Hospitality Business
Ghion Hotel Enterprise	100%	FDR Ethiopia	Hospitality Business
National Alcohol Liquor Factory	100%	FDR Ethiopia	Liquor
Spa Service Enterprise	100%	FDR Ethiopia	Natural Hot Spring spa

2 B) Material Accounting Policies (continued)

2.1 Principles of consolidation and equity accounting (continued)

i. Subsidiaries (continued)

The Group's subsidiaries also hold the following subsidiares as well:

Below are subsidiaries of Commercial Bank of Ethiopia (CBE)

Commercial Nominees PLC	100%	FDR Ethiopia	Outsourcing Services
CBE, South Sudan Ltd	100%	Repulic of South Sudan	Banking
CBE, Djibouti Ltd	100%	Repulic of Djibouti	Banking
Bole Printing Enterprise	100%	FDR Ethiopia	Printing

Below is a Subsidiary of Ethiopian Construction Works Corporation (ECWC)

Geosynthetics Industrial Works PLC	70%	FDR Ethiopia	Pipes and geomebrane sheet

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

ii. Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Equity method of accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy.

The Group has a number of associates held directly and those held indirectly via its subsidiaries. The list of directly held associates are as below:

Name	Effective Interest (%)	Place of Incorporation and Operation	Principal Activity
Topane Gravity Ethiopia	49%	FDR Ethiopia	Security Printing Business
Ethiopian Securities Exchange (ESX)	25%	FDR Ethiopia	Securities Market

2 B) Material Accounting Policies (continued)

2.1 Principles of consolidation and equity accounting (continued)

iii. Changes in ownership interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Ethiopian Investment Holdings.

When the group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This might mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

iv. Transactions eliminated on Consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the portion of equity and profit or loss not attributable to the Group's equity holders. These interests are presented separately in the consolidated statement of financial position and consolidated statement of profit or loss.

2.2 Functional and Presentation Currency

Items included in the financial statements are presented using the Ethiopian Birr, which is the currency of the primary economic environment in which the holding operates ('the functional currency').

Foreign currency transactions are translated into the respective functional currencies of the Group companies using the exchange rates prevailing at the dates of the transactions. Exchange differences arising between the date of the transaction and the date of settlement and from translation at exchange rates of monetary assets and liabilities denominated in currencies other than the Group's functional currency are recognized in profit or loss. Monetary items denominated in foreign currency are translated using the closing mid rate as at the reporting date.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets measure at fair value, such as equities classified as FVOCI, are included in other comprehensive income.

2 B) Material Accounting Policies (continued)

2.3 Property, Plant, and Equipment

Property, Plant, and Equipment (PP&E) refers to tangible assets held by the Group for its own use in production, providing services, or administrative functions. These assets are expected to provide benefits to the Group over a long period.

Basis of Measurement

Property, plant, and equipment are initially recognized at cost. Cost includes expenditures directly attributable to bringing the asset to the condition and location necessary for it to be capable of operating in the manner intended by management.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognized in the statement of profit or loss as incurred.

Subsequent Measurement

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized.

Subsequent to initial recognition, property, plant, and equipment are measured using the cost model. Under cost model, assets are carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation is calculated using the straight-line method based on the estimated useful life of each asset, as well as the units of production method, which allocates depreciation according to production output. The useful lives, residual values, and depreciation methods are reviewed annually and revised as needed. The estimated useful lives for different categories of property, plant, and equipment are as follows:

	Estimated Useful Lives
Land, Improvements, and Buildings	Up to 50 Years
Plant and Machineries	Up to 10 Years
Specialized Equipment	Up to 10 Years
Motor Vehicles	Up to 20 Years
Furniture and Equipment	Up to 10 Years
Other Fixed Asset	Up to 10 Years
Bearer Plant	Up to 10 Years

2.4 Borrowings Costs

The Group capitalizes Borrowings costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, by adding them to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

2 B) Material Accounting Policies (continued)

2.5 Investment property

Investment property is property i.e. land or buildings held either to earn rental income or capital appreciation, or both.

Investment properties are initially recognized at cost, including transaction costs. Subsequent to initial recognition, Investment Properties are measured using the cost model. Under cost model, assets are carried at cost less any accumulated depreciation and any accumulated impairment losses. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying amount at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Depreciation

Depreciation is calculated using the straight-line method based on the estimated useful life of each investment property carried at cost model. The useful lives, residual values, and depreciation methods are reviewed annually and revised as needed.

	Estimated Useful Lives
Land, Improvements, and Buildings	Up to 50 Years

2.6 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

The Group's intangible assets are classified into three main categories:

	Estimated Useful Lives
1 License	Up to 20 Years
2 Software	Up to 10 Years
3 Other Intangible Asset	Up to 10 Years

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

2 B) Material Accounting Policies (continued)

2.7 Leases

EIH determines whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset. The Group assesses whether a contract is or contains a lease, at inception of the contract.

Group acting as a lessee

The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

i) Lease liability

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.
In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

i) Right-of-use asset

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets is subject to impairment. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Estimated Useful Lives
Land, Improvements, and Buildings	Up to 50 Years
Plant and Machineries	Up to 10 Years
Motor Vehicles	Up to 20 Years

Group acting as a Lessor

Where the Group is the lessor, the Group classifies each of its leases as either an operating lease or a finance lease.

A lease agreement that does not transfer substantially the entire risks and rewards incidental to the ownership of the asset to the lease is classified as an operating lease.

The Group recognizes lease payments from operating leases as income on either a straight-line basis or another systematic basis. The Group applies another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

2 B) Material Accounting Policies (continued)

2.8 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial Assets
Recognition and initial measurement

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.
The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.
Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

On initial recognition, financial assets are classified into one of the following measurement categories:
- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL);
- Elected at fair value through other comprehensive income (equities only); or
- Designated at FVTPL

Financial assets include both debt and equity instruments.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2 B) Material Accounting Policies (continued)

2.8 Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial Assets (continued)

Recognition and initial measurement (continued)

On initial recognition of an equity investment that is not held for trading, the group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Debt instruments, including loans and debt securities, are classified into one of the following measurement
- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL); or
- Designated at FVTPL

Classification of debt instruments is determined based on:

(i) The business model under which the asset is held; and

(ii) The contractual cash flow characteristics of the instrument.

Business model assessment

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Group's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.
- The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.
- Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.
- Assessment whether contractual cash flows is solely payments of principal and interest

Ethiopian Investment Holdings

2 B) Material Accounting Policies (continued)

2.8 Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial Assets (continued)

Business model assessment (continued)

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.
In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

One of the Group's subsidiary - Commercial Bank of Ethiopia, holds a portfolio of long-term fixed rate loans for which the Group's subsidiary has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group's subsidiary has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Subsequent measurement

Debt instruments measured at amortized cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost. Interest income on these instruments is recognized in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on debt instruments measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for expected credit losses (ECL) in the statement of financial position.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship.

2 B) Material Accounting Policies (continued)

2.8 Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial Assets (continued)

Subsequent measurement (continued)

Debt instruments measured at FVOCI (continued)

Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the Statement of Profit or Loss and Other Comprehensive Income.

Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in the Statement of Profit or Loss and Other Comprehensive Income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to Provision for credit losses in the Statement of Profit or Loss and Other Comprehensive Income. The accumulated allowance recognised in OCI is recycled to the Statement of Profit or Loss and Other Comprehensive Income upon derecognition of the debt instrument.

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:
i) Are held for trading purposes;
ii) Are held as part of a portfolio managed on a fair value basis; or
iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the Statement of Financial Position, with transaction costs recognized immediately in the Statement of Profit or Loss and Other Comprehensive Income as part of Other income. Realized and unrealized gains and losses are recognized as part of Other income in the Statement of Profit or Loss and Other Comprehensive Income.

Debt instruments designated at FVTPL

Financial assets classified in this category are those that have been designated by the Group upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial assets for which a reliable estimate of fair value can be obtained.

Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial assets designated at FVTPL are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in Other income in the Statement of Profit or Loss and Other Comprehensive Income.

Equity instruments

Equity instruments are classified into one of the following measurement categories:
- Fair value through profit or loss (FVTPL); or
- Elected at fair value through other comprehensive income (FVOCI).

Equity instruments measured at FVTPL

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase, with transaction costs recognized immediately in the Statement of profit or loss and other comprehensive income as part of Non-interest income. Subsequent to initial recognition the changes in fair value are recognized as part of Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income.

2 B) Material Accounting Policies (continued)

2.8 Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial Assets (continued)

Subsequent measurement (continued)

Equity instruments measured at FVOCI

At initial recognition, there is an irrevocable option for the Group to classify non-trading equity instruments at FVOCI. This election is used for certain equity investments for strategic or longer-term investment purposes. This election is made on an instrument-by-instrument basis and is not available to equity instruments that are held for trading purposes.

Gains and losses on these instruments including when derecognized/sold are recorded in OCI and are not subsequently reclassified to the Statement of Profit or Loss and Other Comprehensive Income. As such, there is no specific impairment requirement. Dividends received are recorded in Interest income in the Statement of Profit or Loss and Other Comprehensive Income. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to the Statement of Profit or Loss and Other Comprehensive Income on sale of the security.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Impairment

Further disclosures relating to impairment of financial assets are also provided in Note 4.c - Credit Risk

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on macroeconomic variables, adjusted for forward-looking factors specific to the debtors and the economic environment.

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive: and.
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The Group considers a loan or advance to be in default when the borrower is unlikely to fully meet its credit obligations without recourse to actions such as realization of security, based on qualitative, quantitative, and internally and externally sourced indicators, which may change over time to reflect circumstances. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2 B) Material Accounting Policies (continued)

2.8 Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial Assets (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or,
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2 B) Material Accounting Policies (continued)

2.8 Financial instruments – initial recognition and subsequent measurement (continued)

ii) Financial Liabilities

Initial recognition, measurement and presentation

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.
For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at amortised cost (loans and borrowings)

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.
Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognized, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities

The Group derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

2 B) Material Accounting Policies (continued)

2.9 Biological Asset

The Group recognizes biological assets such as living animals, plants and agricultural produce other than bearer plants, which are held for agricultural activities, which encompass the management of these assets for harvesting, breeding, or producing agricultural produce. The group measures biological assets at fair value less costs to sell at the end of each reporting period. If fair value cannot be reliably measured, the asset is measured at cost less accumulated depreciation and impairment losses. At the point of harvest, the group measures agricultural produce at fair value less costs to sell and becomes inventory under IAS 2. Changes in fair value of biological assets are recognized in profit or loss for the period. These changes typically arise from physical changes (e.g., growth) or changes in market prices.

2.10 Non-current assets held for sale

A non-current asset (or a disposal group) is classified as held for sale if its carrying amount will be recovered primarily through a sale transaction rather than through continuing use. Upon classification as held for sale, the non-current asset (or disposal group) should be measured at the lower of its carrying amount and fair value less costs to sell. Any initial or subsequent write-down to fair value less costs to sell is recognized as an impairment loss in profit or loss. If a subsequent increase in fair value less costs to sell occurs, a gain is recognized in profit or loss, but not exceeding the cumulative impairment losses previously recognized. The Group does not depreciate non-current assets held for sale. Instead, they are assessed for impairment and presented separately on the statement of financial position.

If the asset held for sale is part of a disposal group that represents a major line of business or geographical area of operations, it is classified as a discontinued operation. Discontinued operations should be presented separately in the Statement of Profit or Loss and Other Comprehensive Income, with all income and expenses relating to those operations shown separately.

2.11 Inventories

EIH values inventories at the lower of cost or net realizable value. Costs of inventories include expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition based on the normal production capacity. 'The costs of individual items of inventory are determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

Inventories are classified as follows:
- Raw Materials: Costs incurred in acquiring materials and supplies used in production.
- Work in Progress: Costs of partially completed goods that are in the process of being manufactured.
- Finished Goods: Costs of products that are completed and ready for sale.
- Merchandise: Costs of products that are purchased for resale.
- Supplies and Spare Parts: Costs associated with items consumed in production or maintenance activities

Inventories are written down to their net realizable value when the carrying amount exceeds this value. The amount of any write-down of inventories to net realizable value, as well as any reversal of such write-downs, is recognized as an expense in the period in which the write-down or reversal occurs and included in cost of sales in the statement of profit or loss. Any provision for write-down of inventories is determined by reference to specific items of stock.

2.12 Impairment of Assets

The Group recognizes an impairment loss when the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount in profit or loss. The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the holding estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2 B) Material Accounting Policies (continued)

2.12 Impairment of Assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss.

2.13 Income Taxation

Income tax comprises of current and deferred tax. It is recognised in profit or loss except to the extent it relates to items recognised directly in equity or in the statement of comprehensive income (OCI).

a) Current Income Tax

Current income tax comprises the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the current reporting period, measured using tax rates and tax laws enacted or substantively enacted at the reporting date.

The Parent Company, Ethiopian Investment Holdings (EHI), and its subsidiaries, Ethiopian Airlines Group and Ethiopian Electric Utilities, are exempt from the payment of profit tax in accordance with the applicable laws and regulations. Accordingly, no current income tax is recognized for these entities.

For the other subsidiaries within the Group that are subject to profit tax, current tax is recognized based on taxable profit for the year, using the tax rates and laws enacted or substantively enacted at the reporting date.

b) Deferred Tax

Deferred tax is recognized on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognized for deductible temporary differences, unused tax losses, and unused tax credits to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax liabilities are recognized for taxable temporary differences.

The deferred tax amounts presented in the statement of financial position relate entirely to subsidiaries of the Group that are subject to tax. Accordingly, the deferred tax balances recognized by the Group do not arise from the Parent Company, EIH, or from Ethiopian Airlines Group and Ethiopian Electric Utilities, as these entities are exempt from profit tax.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Deferred tax is measured using tax rates expected to apply when the related asset is realized or the liability is settled, based on laws enacted or substantively enacted at the reporting date.

Current and deferred tax are recognized in profit or loss, except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the related tax is also recognized in other comprehensive income or directly in equity. Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax balances and when the deferred tax balances relate to income taxes levied by the same taxation authority on the same taxable entity, or on different taxable entities where there is an intention to settle current tax balances on a net basis.

2 B) Material Accounting Policies (continued)

2.14 Provisions, Contingent Liability and Contingent Assets

Provisions

The group recognizes a provision, a liability of uncertain timing or amount when it has a present obligation resulting from a past event. The holding measures provisions at the best estimate of the expenditure required to settle the present obligation at the reporting date. The group reviews its provisions at the end of each reporting period and adjusts to reflect the current best estimate. If the provision is no longer probable that an outflow of resources will be required, the provision should be reversed. If any of these criteria are not met, the obligation should not be recognized as a provision but may need to be disclosed as a contingent liability.

Contingent Assets

The Group does not recognize contingent assets, i.e. possible assets that arises from past events and whose existence will be confirmed only by the occurrence (or non-occurrence) of one or more uncertain future events that are not wholly within the Group's control, in the financial statements until they become virtually certain. Instead, they will be disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When the inflow of economic benefits is virtually certain, the contingent asset can then be recognized as an asset.

Contingent Liabilities

The Group does not recognize contingent liabilities, i.e. a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence (or non-occurrence) of one or more uncertain future events. Contingent liabilities can also be a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. Instead, the Group discloses unless the possibility of an outflow of resources is remote. If it becomes probable that an outflow will occur, the liability should be recognized as a provision.

2.15 Revenue from Contracts with Customers

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied and services rendered, stated net of allowances and rebates. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

The Group recognises revenue from the following major sources:

- Fee and commission income
- Airlines Fares
- Telecom and Information technology related revenue
- Real estate rental income
- Hospitality and leisure revenue
- Sale of properties
- Sale of Goods and services
- Electricity sales revenue

Ethiopian Investment Holdings

The Group recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15:

Step 1 - Identify contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2 - Identify performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3 - Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

2 B) Material Accounting Policies (continued)

2.15 Revenue from Contracts with Customers (continued)

Step 4 - Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5 - Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date.
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

For performance obligations where any of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

The following are the policies for the major sources of revenue:

Real estate development:

Revenue from real estate development is recognised when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the development obligation at the reporting date. Where the outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Food and related non-consumable items:

The Group recognises revenue from sale of food and related non-consumable items at a point in time. Sales of goods to customers mainly include one performance obligation, where revenue is recognised when control of the goods is transferred (when the goods have been shipped to the customer's specific location (i.e. delivered). Following delivery, the customer has the full discretion over the manner of use of the goods, the primary responsibility on selling the goods and bears the risks of obsolescence and loss in relation to the goods.

Rental income:

Rental income arising from operating leases on investment properties is recognised, net of discount, in accordance with the terms of lease contracts over the lease term on a straight-line basis. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Sales of Goods

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group accounts for that revenue at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Ethiopian Investment Holdings

2 B) Material Accounting Policies (continued)

2.15 Revenue from Contracts with Customers (continued)

Hospitality and leisure revenue

Hospitality revenue corresponds to all the revenues received from guests of the hotels. The services rendered (including room rentals, food and beverage sales and other ancillary services) are distinct performance obligations, for which prices invoiced to the guests are representative of their stand-alone selling prices. These obligations are fulfilled over time when they relate to room rentals, that is over the stay within the hotel, and at a point in time for other goods or services, when they have been delivered or rendered. Income from leisure businesses comprises revenue from goods sold and services provided at natural hot spring spas, swimming pools and lottery gaming services, and is recognised at the point when the goods are sold or services are rendered.

Rendering of services

The Group provides services in the hospitality, hot springs spa, construction and finance sectors. Such services are generally recognised as a performance obligation satisfied at the point in time when the service is rendered to the customer. Fees paid in advance for such services are deferred and released to revenue when the services are provided or when the validity has lapsed.

Sale of fine arts and furniture

The Group recognises revenue from contracts with customers for manufacturing of household furniture and other related carpentry and woodwork. This includes the initial amount agreed in the contract plus any variations in contract work, claims and incentives payments, to the extent that it is probable that they will result in revenue and can be measured.

Manpower and outsourcing services

The Group recognises revenue from provision of manpower to its customers along with other management and consultancy services when the services are rendered to customers and on the basis of the contractual labour and other consultancy rates agreed with the customers.

Telecom Services Revenue

The Group recognises bundled telecom packages separately accounts for individual products and services if they are distinct. A product or service is considered distinct if it can be identified separately from other items in the bundle and if the customer can derive benefit from it on its own. The total consideration is then allocated to the distinct products and services in the bundle based on their stand-alone selling prices. These prices are determined using the Group's standard list prices for mobile devices, extended warranties, and telecommunication services. For items that are not sold separately, the Group estimates the stand-alone prices using the adjusted market assessment approach.

The Group typically fulfils its performance obligations over time, except for the sale of devices, which is recognized at a specific point in time. The primary performance obligations involve providing services such as voice, data, and SMS. The Group uses the output method to recognize revenue from contracts with customers, as it accurately reflects the transfer of goods or services to the customers.

Airlines Services Revenue

The Group recognizes revenue from passenger tickets including excess baggage and cargo sales when the transportation services is provided. sales of unutilized tickets and airway bills are recognized as a liability and shown in the statement of financial position under current liabilities with the heading contract liabilities. The value of unused tickets are recognized as revenue after the expiry date of one-year.

The Group recognizes revenue from passenger tickets including excess baggage and cargo sales when the transportation services is provided. sales of unutilized tickets and airway bills are recognized as a liability and shown in the statement of financial position under current liabilities with the heading contract liabilities. The value of unused tickets are recognized as revenue after the expiry date of one-year.

2 B) Material Accounting Policies (continued)

2.15 Revenue from Contracts with Customers (continued)

Revenue From Construction Contracts

The Group provides construction services to its customers. Such contracts are entered into before rendering of services begins. Under the terms of the contracts, the Group is contractually restricted from reducing the structure under construction to another customer and has enforceable right to payment for work done. Revenue from construction is therefore recognised over time on a cost to cost method based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The management consider that this input method is an appropriate measure of the progress towards complete satisfaction of the performance obligations under IFRS 15.

Where the outcome of a construction contract cannot be estimated reliably, revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.
Contract costs are recognised as expenses in the period in which they are incurred.

When it is possible that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

2.16 Employee Benefits

The Group classifies employee benefits into short-term, post-employment, termination and other long-term benefits.

a) Short-Term Employee Benefits

Short term employee benefits include wages, salaries, incentive bonuses, paid annual leave and sick leave. The Group measures short-term employee benefit obligations on an undiscounted basis and are expensed as the related services are provided.

b) Post-Employment Benefit

Post-employee benefits are benefits payable after employment, including pensions and other retirement benefits. The Group classifies post-employment benefits into defined contribution and defined benefit plans.

Defined Contribution Plans

The Group operates a defined contribution pension scheme in line with the provisions of Ethiopian Public Servants' Pension Proclamation No. 1267/2022. Funding under the scheme is 7% and 11% by employees and the holding respectively;

Once the contributions have been paid, the Group retains no legal or constructive obligation to pay further contributions if the Fund does not hold enough assets to finance benefits accruing under the retirement benefit plan. The Group's obligation are recognized in the profit and loss account.

In addition, the company is obligated for a severance obligation which is a benefit plan that is unfunded defined benefit scheme. The Company does not maintain any assets for the schemes but ensures that it has sufficient funds for the obligations as they crystallize. The cost and obligation resulting from the severance scheme is determined using the projected unit credit method as specified under IAS 19, Employee Benefits.

Defined benefit plans

The Group operates a defined benefit plan i.e. a post-employment benefit plan at the termination of the employment relationship, other than a defined contribution plan. The Group accounts not only its legal obligation under the formal term described, but also for any constructive obligation that arises from the Group´s customary practices. A customary practice gives rise to a constructive obligation where the Group has no realistic alternatives but to pay employee benefits.

2 B) Material Accounting Policies (continued)

2.16 Employee Benefits (continued)
Defined benefit plans (continued)

The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs are deducted. The discount rate is the yield at the reporting date on governmental bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually using the projected unit credit method based on actuarial valuations. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested.

To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Group recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income in the period in which they arise.

Termination benefits
According to Law, in case of unjustified dismissal, employers are obligated to pay to their employees compensation based on the years of service.

2.17 Fair value measurements
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

There is no active market or observable prices except for foreign currency market to measure the Group's financial assets or financial liabilities at fair value. Fair value of financial assets and financial liabilities is determined at each reporting date for disclosure in the financial statement purposes only.

The group identifies the following three valuation approaches: Market, Income and Cost Approach and select the technique(s) most appropriate under its current circumstances and maximize the use of observable inputs. The group utilizes the three-level hierarchy to prioritize the inputs to valuation techniques:

Level 1: Quoted prices in active markets for identical assets/liabilities.

Level 2: Observable inputs other than quoted prices, such as quoted prices for similar items or interest rates.

Level 3: Unobservable inputs, based on the best available information. When measuring fair value, the group gives utmost preference to Level 1 inputs, if available and level 2 and 3 in hierarchy.

Ethiopian Investment Holdings
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2 B) Material Accounting Policies (continued)

2.18 Insurance and reinsurance contracts

One of the Group's subsidiary, Ethiopian Insurance Corporation, primary activity is the provision of insurance and reinsurance services. The Group's subsidiary initially recognizes insurance contracts when it becomes a party to the contractual provisions of the contract. The initial measurement of insurance contracts is based on the present value of future cash flows, adjusted for the time value of money and financial risks.

The Group's subsidiary measures insurance contracts subsequently using the general measurement model, which includes the fulfilment cash flows (consisting of estimates of future cash flows, discount rates, and risk adjustments) and the contractual service margin, which represents the unearned profit of the contract.

Contractual Service Margin is recognized as revenue over the coverage period of the insurance contracts in a way that reflects the service provided. Discount rates used by the Group in the measurement of insurance liabilities are based on current market rates for instruments with similar characteristics. Assumptions for mortality, morbidity, and other relevant factors are determined using best estimate assumptions and are updated at each reporting date.

(i) Classification

Contracts under which the Group's subsidiary accepts significant insurance risk are classified as insurance contracts. Contracts held by the Group's subsidiary under which it transfers significant insurance risk related to insurance contracts are classified as reinsurance contracts. Insurance and reinsurance contracts also expose the Group's subsidiary to financial risk.

The Group's subsidiary accepts re-insurance risk from local insurance companies on facultative basis from other insurers.

Insurance contracts may be issued and reinsurance contracts may be initiated by the Group, or they may be acquired in a business combination or in a transfer of contracts that do not form a business. All references in these accounting policies to 'insurance contracts' and 'reinsurance contracts' include contracts issued, initiated or acquired by the Group, unless otherwise stated.

Long Term Insurance contracts are classified as direct participating contracts or contracts without direct Participation features. EIC has two life insurance products that do have participative features namely anticipated endowment and education endowment products. However, currently there is no clearly identified pool of underlying items for those insurance contracts.

All other insurance contracts and all reinsurance contracts are classified as contracts without direct participation features. Some of these contracts are measured under the Premium Allocation Approach (PAA).

(ii) Level of aggregation

The Group's subsidiary identifies portfolios of insurance contracts. Each portfolio comprises contracts that are subject to similar risks and managed together, and is divided into three groups:

- Any contracts that are onerous on initial recognition;
- Any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- Any remaining contracts in the portfolio.

Each group of insurance contracts is further divided by year of issue. The resulting groups represent the level at which the recognition and measurement accounting policies are applied. The groups are established on initial recognition and their composition is not reassessed subsequently. Each group of reinsurance contracts comprises a single contract.

2 B) Material Accounting Policies (continued)

2.18 Insurance and reinsurance contracts (continued)

(iii) Recognition and measurement

The Group's subsidiary recognizes a group of insurance contracts issued from the earliest of the following:

i) The beginning of the coverage period of the group of contracts. The coverage period is the period during which the Group provides coverage for insured events in respect of all premiums within the boundary of an insurance contract.

ii) The date when the first payment from a policyholder in the group becomes due. If there is no contractual due date, then it is considered to be the date when the first payment is received from the policyholder.

iii) The date when facts and circumstances indicate that the group to which an insurance contract will belong is onerous.

The Group recognizes a group of reinsurance contracts initiated that provide proportionate coverage at the later of the beginning of the coverage period of the group of reinsurance contracts and the initial recognition of any underlying contract, and recognizes all other groups of reinsurance contracts from the beginning of the coverage period of the group of reinsurance contracts. The coverage period is the period during which the Group receives coverage for claims arising from the reinsured portions of the underlying insurance contracts.

Subsequently, new contracts are added to the group when they are issued or initiated, provided that all contracts in the group are issued or initiated in the same year. The Group recognizes a group of contracts acquired at the date of acquisition.

(iv) Contract boundaries

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of a contract if they arise from substantive rights and obligations that exist during the reporting period under which the Group can compel the policyholder to pay premiums or has a substantive obligation to provide services.

A substantive obligation to provide services ends when:

i) The Group has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or

ii) The Group has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio; and the pricing of the premiums for coverage up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

The contract boundary is reassessed at each reporting date and, therefore, may change over time. Contract boundary includes cash flows that result from a substantive obligation of the entity to deliver cash at present or future date.
In the non-life business as well as a portion of the life business, the Group generally uses the PAA to simplify the measurement of groups of contracts on the following bases:

i) Insurance and reinsurance contracts: the coverage period of each contract in the group of contracts is one year or less; and

ii) Insurance and reinsurance contracts: for contracts with coverage periods greater than one year the Group reasonably expects that the resulting measurement would not differ materially from the result of applying the General Measurement Model.

2 B) Material Accounting Policies (continued)

2.18 Insurance and reinsurance contracts (continued)

(v) Measurement – Contracts measured under the PAA

On initial recognition of each group of contracts, the carrying amount of the liability for remaining coverage is measured at the premiums received on initial recognition. Insurance acquisition cash flows are recognized as expenses when they are incurred.

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Group recognizes a loss in profit or loss and increases the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage (including the risk adjustment for non-financial risk) exceed the carrying amount of the liability for remaining coverage. The fulfilment cash flows are adjusted for the time value of money and the effect of financial risk (using current estimates). The liability for incurred claims is also adjusted for the time value of money and the effect of financial risk.

The Group recognizes the liability for incurred claims of a group of insurance contracts at the amount of the fulfilment cash flows relating to incurred claims. The fulfilment cash flows are discounted (at current rates) unless the cash flows are expected to be paid in one year or less from the date the claims are incurred.

(vi) Reinsurance contracts

The Group applies the same accounting policies to measure a group of reinsurance contracts as it does on its insurance contracts measured under the PAA, adapted where necessary to reflect features that differ from those of insurance contracts.

On initial recognition, the Group measures a group of insurance contracts as the total of: (a) the fulfilment cash flows, which comprise estimates of future cash flows, adjusted to reflect the time value of money and the associated financial risks, and a risk adjustment for non-financial risk; and (b) the CSM.

The measurement of the fulfilment cash flows of a group of insurance contracts does not reflect non-performance risk.

Insurance acquisition cash flows that the Group pays before the related group of contracts is recognized are presented as an insurance contract asset. When the group of contracts is recognized, these cash flows are included in the measurement of the group and the previously recognized asset is derecognized.

(vii) Measurement – Contracts not measured under the PAA

The risk adjustment for non-financial risk for a group of insurance contracts is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

The CSM of a group of insurance contracts represents the unearned profit that the Group will recognize as it provides services under those contracts. On initial recognition of a group of insurance contracts, if the total of the fulfilment cash flows.

(viii) Subsequent measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and (b) any remaining CSM at that date. The liability for incurred claims comprises the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

2 B) Material Accounting Policies (continued)

2.18 Insurance and reinsurance contracts (continued)

(viii) Subsequent measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and (b) any remaining CSM at that date. The liability for incurred claims comprises the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

The fulfilment cash flows of groups of insurance contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk.

(ix) Derecognition and contract modification

The Group derecognizes a contract when it is extinguished – i.e. when the specified obligations in the contract expire or are discharged or cancelled.

The Group also derecognizes a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed; in which case a new contract based on the modified terms is recognized. If a contract modification does not result in derecognition, then the Group treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

(x) Presentation

Groups of insurance contracts that are assets and that are liabilities, and groups of reinsurance contracts that are assets and that are liabilities, are presented separately in the statement of financial position.

The Group disaggregates amounts recognized in the statement of profit or loss and OCI into (a) insurance service results, compromising insurance revenue and insurance service expenses, and (b) insurance finance income or expenses.

Income and expenses from reinsurance contracts are presented separately from income and expenses from insurance contracts. Incomes and expenses from reinsurance contracts, other than insurance finance income or expenses, are presented on a net basis as 'net expenses from reinsurance contracts' in the insurance service result.

The Group does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

Insurance revenue excludes any investment components and is measured as follows:

Insurance revenue – contracts not measured under PAA

The Group recognizes insurance revenue as it satisfies its performance obligations – i.e as it provided coverage or other services under groups of insurance contracts. For contracts not measured under the PAA, the insurance revenue relating to services provided for each period represents the total of the changes in the liabilities for remaining coverage that relate to services for which the Group expects to receive consideration.

The amount of the CSM of a group of insurance contracts that is recognized as insurance revenue in each annual period is determined by identifying the coverage units in the group, allocating the CSM remaining at the end of the period (before any allocation) equally to each coverage unit provided in the period and expected to be provided in future periods, and recognizing in profit or loss the amount of the CSM allocated to coverage units provided in the period. The number of coverage units is the quantity of coverage provided by the contract in the group, determined by considering for each contract the quantity of benefits provided and its expected coverage duration.

2 B) Material Accounting Policies (continued)

2.18 Insurance and reinsurance contracts (continued)

(x) Presentation (continued)

Insurance revenue – Contracts measured under the PAA

For contracts measured under the PAA, the insurance revenue for each period is the amount of expected premium receipts for providing coverage in the period.

For contracts not measured under the PAA, the Group establishes a loss component of the liability for remaining coverage for onerous groups of insurance contracts. The loss component determines the amount of fulfilment cash flows that are subsequently excluded from insurance revenue when they occur.

When the fulfilment cash flows occur, they are allocated between the loss component and the liability for remaining coverage excluding the loss component on a systematic basis.

The systematic basis is determined by the proportion of the loss component relative to the total estimate of the present value of the future cashflows plus the risk adjustment for non-financial risk at the beginning of each period (or on initial recognition if a group of contracts is initially recognized in the period).

Changes in estimates of cash flows relating to future services and changes in the Group's share of fair value of any underlying items are allocated solely to the loss component.

If the loss component is reduced to zero, then any excess over the amount allocated to the loss component creates a new CSM for the group of contracts.

Net expenses from reinsurance contracts

A net expense from reinsurance contracts comprises reinsurance service expenses less amounts recovered from reinsurers.
The Group recognizes reinsurance service expenses as it receives coverage or other services under groups of reinsurance contracts.
For contracts measured under the PAA, reinsurance service expenses for each period are the amount of expected premium payments for receiving coverage in the period.

Insurance finance income and expense

Insurance finance income and expenses compromise changes in the carrying amounts of groups of insurance and reinsurance contract arising from the effects of the time value of money, financial risk and changes therein.

3 Critical estimates, judgments and errors

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

i) <u>Determining the day 1 investment in subsidiary cost</u>

On the transfer of 26 subsidiaries, the Group's management exercised professional judgment in determining the cost of investments in subsidiaries. The cost was measured based on the net assets of the subsidiaries at the date control was obtained. This approach was considered appropriate given the nature and circumstances of

3 Critical estimates, judgments and errors (continued)

Judgements (continued)

ii) Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several material lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

iii) Provision for expected credit losses on financial assets

In determining the expected credit losses, the Group makes the following judgments:

a) Significant increase in credit risk (SICR)
In assessing whether a significant increase in credit risk (SICR) has occurred for an exposure since initial recognition, the Group considers both quantitative and qualitative information and analysis. In doing so, the Group makes judgements about the appropriate indicators used as SICR triggers. The triggers that the Group has determined as appropriate include the 30-day backstop, movement in PD and other qualitative factors, such as moving a customer/facility to the watch list, or the account becoming forborne. See Note 4.c - Credit risk for further details.

b) Multiple economic scenarios
The Group in its measurement of ECLs makes judgements about the type and number of macroeconomic scenarios in order to reflect the Group's exposure to credit risk due to the diverse activities and geographical operation areas of its subsidiaries.

iv) Fair value

Significant judgement is exercised in the classification of fair value instruments as level 3 as the valuation of such instruments is driven by significant unobservable inputs. The Group considers an instrument to be classified as valued using significant unobservable inputs where more than 10% of the instrument's valuation is determined by unobservable inputs.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

i) Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires assumptions, in particular, in the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the variable inputs and their interdependencies. Elements of the ECL calculation that involve assumptions and estimate uncertainty include:

- The weightings assigned to the multiple economic scenarios in order to reflect the exposure to credit risk.
- The value of specific economic inputs included in the assessment, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.

3 Critical estimates, judgments and errors (continued)

Estimates and assumptions (continued)

i) Impairment losses on financial assets (continued)

- In addition to the judgements outlined above with regards to SICR triggers, there is also an assessment of qualitative criteria to determine if there has been a significant increase in credit risk. These supplementary factors (such as sectorial approaches), result in significant assumptions and estimation uncertainty.

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit).
The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.
The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

ii) Revenue recognition - Estimating stand-alone selling price – Sheba Miles loyalty programme

The Group estimates the stand-alone selling price of the loyalty points awarded under the Sheba Miles programme by one of its subsidiaries, Ethiopian Airlines Group. The stand-alone selling price of the loyalty points issued is calculated by multiplying the estimated redemption rate and the monetary value assigned to the loyalty points. In estimating the redemption rate, the Group considers breakage which represents the portion of the points issued that will never be redeemed. The Group applies statistical projection methods in its estimation using customers' historical redemption patterns as the main input. The redemption rate is updated quarterly and the liability for the unredeemed points is adjusted accordingly. In estimating the value of the points issued, the Group considers the mix of products that will be available in the future in exchange for loyalty points and customers' preferences. The Group ensures that the value assigned to the loyalty points is commensurate to the stand-alone selling price of the products eligible for redemption (i.e., the value of each point is equivalent to the stand-alone selling price of any products eligible for redemption divided by number of points required).
As points issued under the programme do not expire, estimates of the stand-alone selling price are subject to significant uncertainty. Any significant changes in customers' redemption patterns will impact the estimated redemption rate. As at 30 June 2023, the estimated liability for unredeemed points was ETB 3,248 Million.

iii) Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

4 Financial risk management

4.a Introduction

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The Group does not hedge any of its risk exposures.

Financial risk management is carried out at both the Group and subsidiary levels under policies and frameworks approved by the appropriate governance bodies of EIH and its subsidiaries. EIH provides overall oversight and guidance for risk management across the Group, including principles and policies covering key areas such as foreign exchange risk, interest rate risk, credit risk, and the investment of excess liquidity, while day-to-day risk management is undertaken by the respective finance functions of the Group entities.

Categories of financial instruments

	Note	30-Jun-23 Birr '000
Financial assets at amortised cost		
Non-current		
Loans and advances at amortized cost	20	327,837,826
Current		
Loans and advances at amortized cost	20	88,707
Trade and other receivables	24	359,366,265
Cash and cash equivalents	25	309,274,996
		668,729,968
		996,567,794
Financial liabilities at amortised cost		
Current		
Borrowings	27	225,124
Lease liability	16	22,250,076
Trade payables	31	371,978,579
Contract liabilities	5(b)	140,649,700
Non current		
Borrowings	27	337,301,402
Lease liability	16	121,847,089
Deposit at amortized cost	30	946,292,106
		994,251,970

4.b Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily, with respect to the US dollar, Euro CFA Francs and among other major international currencies. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the Group's subsidiaries' Functional Currency.

4 Financial risk management (continued)

4.C Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables, loans and committed transactions. The Group is also exposed to credit risks arising from investments in securities carried at amortised cost and at FVOCI.

Credit risk limits within the Group are determined based on management's assessment of each counterparty, taking into account factors such as financial position, historical experience, credit quality, and other relevant considerations. Where applicable, risk limits are established with reference to internal or external credit assessments and in line with parameters approved by management. Compliance with approved credit limits is monitored on an ongoing basis by the respective Group entities. The Group's policy is to place cash and cash equivalents, as well as short-term deposits, with reputable banks and financial institutions, while maintaining diversification of bank deposits to manage concentration risk.

i) Trade and other receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets.
To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contract. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 30 June 2023, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.Calculating the Expected Credit Loss (ECL) on receivables is determined by categorizing the outstanding balances according to their aging periods. Under this method, receivables are grouped into different aging buckets based on the length of time they have remained uncollected (for example: current, 30 days past due, 60 days past due, 90 days past due, 180 days past due, and above).

Each aging category reflects a different level of credit risk, and therefore, an appropriate ECL rate is applied to each category. This approach enables to estimate potential credit losses more systematically by considering the historical default experience and the increasing probability of non-collection as receivables age.

Fully performing assets represents counter parties that are paying their dues as they fall due and are operating within their approved credit limits. The debt that is overdue has exceeded the approved credit limit however counter parties continue to pay and are trading normally. The debt that is impaired is fully provided for.

On that basis, the loss allowance as at 30 June 2023 was determined to be as follows for the trade receivables and contract assets:

30 June 2023	**Current**	**Over 30 days past due**	**Over 60 days past due**	**Over 90 days past due**	**Over 120 days past due**	**Total**
	Birr '000	**Birr '000**	**Birr '000**	**Birr '000**	**Birr '000**	**Birr '000**
Expected loss rate		1%	3%	8%	24%	
Gross carrying amount – trade receivables	378,831,156	-	-	-	-	**378,831,156**
Gross carrying amount – contract assets	9,397,387	-	-	-	-	**9,397,387**
Loss allowance	(31,586,667)	-	-	-	-	**(31,586,667)**
	356,641,876	-	-	-	-	**356,641,876**

The loss allowances for trade receivables and contract assets as at 30 June reconcile to the opening loss allowances as follows:

	Trade receivables Birr '000
Opening allowance as at 01 July 2022	(28,312,053)
Increase in loan loss allowance recognised in profit or loss during the year	(3,274,614)
Receivables written off during the year as uncollectible	-
Unused amount reversed	-
Closing loss allowance at year end	**(31,586,667)**

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due. During the period, the Group did not write off any trade receivables.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Ethiopian Investment Holdings

4 Financial risk management (continued)

4.c Credit risk (continued)

(ii) Deposits with financial institutions

This comprise bank balances with local and foreign financial institutions. Management considers the deposits to be low credit risk since they have a low risk of default and the financial institutions in which it has placed these deposits has a strong capacity to meet its contractual cash flow obligations in the near term. The loss allowance provision for deposits with financial institutions reconciles to the opening loss allowance for that provision as follows:

	30-Jun-23 Birr '000
At start of year	(8,883,199)
Impairment losses for the year	(4,488,893)
Reversals of impairment losses for the year	-
Loss allowance as at period end	**(13,372,092)**

All of these financial assets are considered to be low risk, and thus the impairment provision recognised during the period was limited to 12 months expected losses.

(iii) Loans and advances at amortised cost

For the loans and advances at amortised cost made by the Group's subsidiary - Commercial Bank of Ethiopia, the estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

The Group has implemented a series of credit procedures and reports for assessing the performance of its portfolio, the requirements of provisions and, especially, for anticipating events that may affect its debtors' future condition.
The following table analyses the loans and advances at amortised cost, which are exposed to credit risk and its corresponding assessment according to the above risk classification:

As at 01 July 2022

Classification rating	**Risk grade**	**Individually significant loans**	**Other loans**	**Gross amounts**
		Birr '000	**Birr '000**	**Birr '000**
Exceptionally low risk	Grade 1	146,527,304	32,531,714	179,059,018
Very low risk	Grade 2	14,698,998	26,202,466	40,901,464
Low risk	Grade 3	-	48,734,629	48,734,629
Moderate Risk	Grade 4	-	8,175,539	8,175,539
Potential Risk	Grade 5	5,285,267	2,921,347	8,206,614
High Risk	Grade 6	-	993,470	993,470
Very High Risk	Grade 7	-	646,654	646,654
Default Risk	Grade 8	-	203,669	203,669
		166,511,569	**120,409,488**	**286,921,057**
Interest receivable from loans				39,520,484
Expected credit losses				(32,788,647)
				293,652,894

Ethiopian Investment Holdings

4 Financial risk management (continued)

4.c Credit risk (continued)

As at 30 June 2023

Classification rating	**Risk grade**	**Individually significant loans** Birr '000	**Other loans** Birr '000	**Gross amounts** Birr '000
Exceptionally low risk	Grade 1	143,392,578	85,131,966	228,524,544
Very low risk	Grade 2	14,735,513	31,557,981	46,293,494
Low risk	Grade 3	-	24,132,775	24,132,775
Moderate Risk	Grade 4	-	1,709,825	1,709,825
Potential Risk	Grade 5	5,285,267	271,304	5,556,571
High Risk	Grade 6	-	136,644	136,644
Very High Risk	Grade 7	-	50,554	50,554
Default Risk	Grade 8	-	18,182	18,182
		163,413,358	143,009,231	306,422,589
Interest receivable from loans				57,272,559
Expected credit losses				(35,768,615)
				327,926,533

Classification rating	**Risk grade**	**Score**	**Status**
Exceptionally low risk	Grade 1	> = 85%	Bankable
Very low risk	Grade 2	70 - 84%	Bankable
Low risk	Grade 3	60 - 69%	Bankable
Moderate Risk	Grade 4	50 - 59%	Bankable
Potential Risk	Grade 5	40 - 49%	Bankable on exceptional status
High Risk	Grade 6	30 - 39%	Bankable on very exceptional status
Very High Risk	Grade 7	25 - 29%	Not bankable
Default Risk	Grade 8	< 25%	Not bankable

As per IFRS 9 requirements, interest is to be accrued in the loans and advances and presented as one line item. This shall be performed in the subsequent reporting periods where the loans and advances system has been reconfigured to perform this.

The Group's subsidiary - Commercial Bank of Ethiopia, analyses credit risk concentration by sectors. The analysis of credit risk concentration as of the reporting date of the financial statement is described as follows:

Concentration by sector

Sector	**30-Jun-23** Birr '000
Manufacturing	205,863,253
Consumer Loan	53,104,227
Domestic Trade and Services	47,513,376
Agriculture	29,694,884
Building and Construction	14,061,891
International Trade	12,295,359
Financial Institutions	1,162,158
Total outstanding credit	**363,695,148**
Expected credit loss	(35,768,615)
Net outstanding credit	**327,926,533**

The loan portfolio is diversified in all economic sectors. However, the lion's share of the outstanding loan is concentrated in the prime economic sectors such as Manufacturing, Consumer Loan, Domestic Trade and Services, Agriculture Building and Construction and International trade.

The loan portfolio is also diversified product wise. The main loan product lines of the Group consists Term Loan, Overdraft, Advances and Merchandise. The largest portfolio of credit product is constituted by term loans that consists different sub-products according to the purpose of the loan granted for.

Concentration by product line

Sector	**30-Jun-23** Birr '000
Term loan	329,147,197
Overdraft	13,609,365
Interest Free	20,938,585
Total outstanding credit	**363,695,147**
Expected credit loss	(35,768,615)
Net outstanding credit	**327,926,532**

Ethiopian Investment Holdings

4 Financial risk management (continued)

4.c Credit risk (continued)

Loan commitments by product line

Sector	**30-Jun-23 Birr '000**
Loan and Bond Commitment	38,449,036
Letter of Credit	210,932,255
Letter of Guarantee	6,309,493
Total outstanding credit	**255,690,784**
Expected credit loss	(150,871)
Net outstanding credit	**255,539,913**

Financial guarantees are contracts that require the group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.
Term Loan and Bond commitments are promises to disburse the remaining portion of an approved loan/bond under pre-specified terms and conditions while letters of credit commitment is also pertaining to advances made to import and export business of the borrowers where the group is committed to meet their obligation when they fail.

The Group's subsidiary - Commercial Bank of Ethiopia, uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Credit Risk Management team to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between an 1 and 2 rating grade is lower than the difference in the PD between a 6 and 7 rating grade.

Grouping of instruments for losses measured on a collective basis

For the purpose of measuring expected credit losses on a collective basis, the Group groups exposures according to common credit risk characteristics so that the exposures can be assessed together in a meaningful and reliable manner. The grouping is based on the availability of sufficient information to support a sound and statistically robust assessment. Where adequate internal data is not available, the Group uses relevant internal and external benchmark data as supplementary inputs for modelling purposes.
The following are additional considerations for each type of portfolio held by the Group:

Retail customer and employee loans:
After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other known information about the borrower which impacts their creditworthiness - Such as unemployment and previous delinquency history - is also incorporated into the behavioural score. This score is mapped to a PD.

Business loans:
For wholesale business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group's subsidiary - Commercial Bank of Ethiopia, considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information an analysis, based on CBE's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
• The remaining lifetime probability of default (PD) as at the reporting date; with
• The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling, the days past due exceeds 30 days.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. These qualitative indicators is the remaining Lifetime PD at the reporting date has increased, compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognised, so that it exceeds the relevant threshold for the loan and advances. These thresholds are determined separately for the retail customer and employee loans and the business loans. The lifetime PD movements on instruments which do not subsequently become delinquent have also been assessed to identify the "natural" movement in Lifetime PD which is not considered indicative of a significant increase in credit risk.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Day past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

4 Financial risk management (continued)

4.c Credit risk (continued)

Other qualitative criteria's that indicate a loan and advance has had a significant increase in credit risk include the following:
• Retail customer and employee loans: short-term forbearance, direct debit cancellation, extension to the terms granted and previous arrears within the last 12 months.
• Business loans: significant increase in credit spread, Significant adverse changes in business, financial and/or economic conditions in which the borrower operates, Actual or expected forbearance or restructuring, Actual or expected significant adverse change in operating results of the borrower, Significant change in collateral value (secured facilities only) which is expected to increase risk of default and Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all Retail loans and advances. In relation to business loans and advances, where a Watchlist is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

The Group has not used the low risk credit exemption for any financial instruments for the year ended 30 June 2023.

Definition of default

The Group considers a loan and advance financial asset to be in default when:
• The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
• Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.
In assessing whether a borrower is in default, the Bank considers indicators that are:
• Qualitative - e.g. breaches of financial covenants; borrower is in long-term forbearance, is deceased, is insolvent, concessions have been made by the Bank relating to the borrower's financial difficulties.
• Quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
• Based on data developed internally and obtained from external sources.
Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Incorporation of forward looking information

CBE incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from CBE's Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the CBE formulates three economic scenarios: a base case, which is the central scenario, based on available projections, and two less likely scenarios, one upside and one downside scenario, Both the upside and downside scenarios are derived from analysis of historical volatilities on each identified macroeconomic variable.

CBE applies, in modelling of forward-looking information, Ethiopian historical macroeconomic data and forecasts published by Business Monitor International (BMI), a reputable external data body. The scenario probability weightings are derived from each segment's macroeconomic information values.

The scenario probability weightings are derived from each segment's macroeconomic information values.

PD computed for ECL estimation is point-in-time. It captures all macroeconomic factors that will affect PD estimate in the future. Therefore, the impact of forward-looking indicators on PD has to been analyzed using Principal Component Analysis (PCA) in order to generate FLI adjusted PD.

The Cox proportional hazards model's exponent function is used to compute the FLI adjusters as a function of PCA coefficients and macroeconomic projections on a base, upside and downside basis. PCA coefficient values are used as base probability weights and split the difference equally for upside and downside scenarios.

CBE has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 30 June 2023 included the following key indicators:

* Real GDP growth rate
* Gross National Expenditure (% of GDP)
* Real Rate of Interest; lending
* Gross National Savings
* Gross National Income
* Exports of goods and services
* Debt servicing
* Import of goods and services
* Real Rate of Interest; Time deposit
* Gross domestic savings
* Official Exchange rate

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 to 15 years.

Maximum exposure to credit risk

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

4 Financial risk management (continued)

4.c Credit risk (continued)

Loans and advances to customers at amortized cost

	30-Jun-23				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased credit-impaired**	**Total**
	Birr '000	**Birr '000**	**Birr '000**	**Birr '000**	**Birr '000**
Classification rating					
Investment grade	196,359,882	-	-	-	196,359,882
Standard monitoring	-	46,293,494	-	-	46,293,494
Special monitoring	-	102,401,675	-	-	102,401,675
Default	-	-	18,640,097	-	18,640,097
Gross carrying amount	**196,359,882**	**148,695,169**	**18,640,097**	**-**	**363,695,148**
Loss allowance	(6,837,427)	(15,034,755)	(13,896,433)	-	(35,768,615)
Carrying amount	**189,522,455**	**133,660,414**	**4,743,664**	**-**	**327,926,533**

Investment securities at amortised cost

	30-Jun-23				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased credit-impaired**	**Total**
	Birr '000	**Birr '000**	**Birr '000**	**Birr '000**	**Birr '000**
Classification rating					
Investment grade	752,448,001	-	-	-	752,448,001
Standard monitoring	-	-	-	-	-
Special monitoring	-	-	-	-	-
Default	-	-	-	-	-
Gross carrying amount	**752,448,001**	**-**	**-**	**-**	**752,448,001**
Loss allowance	(11,161,574)	-	-	-	(11,161,574)
Carrying amount	**741,286,427**	**-**	**-**	**-**	**741,286,427**

Other financial assets at amortised cost

	30-Jun-23				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased credit-impaired**	**Total**
	Birr '000	**Birr '000**	**Birr '000**	**Birr '000**	**Birr '000**
Classification rating					
Investment grade	175,788,427	-	-	-	175,788,427
Standard monitoring	-	-	-	-	-
Special monitoring	-	-	-	-	-
Default	-	-	-	-	-
Gross carrying amount	**175,788,427**	**-**	**-**	**-**	**175,788,427**
Loss allowance	(2,935,052)	-	-	-	(2,935,052)
Carrying amount	**172,853,375**	**-**	**-**	**-**	**172,853,375**

4 Financial risk management (continued)

4.c Credit risk (continued)

Collateral and other credit enhancements

The Group's subsidiary - Commercial Bank of Ethiopia, employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. CBE prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

• Mortgages over residential properties;
• Charges over business assets such as premises, inventory and accounts receivable; and,
• Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.
Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

CBE's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the CBE since 01 July 2022.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses.

The fair value estimates of collateral are based on the value of guarantees at the time loans commitments are originated. The Group's subsidiary, CBE, has technical employees (appraisers) for a constant monitoring of these collaterals in order to update such fair values if it is necessary. In addition, the fair value of collateral is updated when a loan is individually assessed as impaired or by any change in conditions that the debtor request in advance and in the case of project financing, according to the progress of work.

While estimating the value of the collateral held, the Group may opt to use the cost sales comparison or income valuation approach as appropriate. Every collateralized property is insured by appropriate insurance company and they have 100% insurance policy coverage against perils related the property.

Collateralized building and other real properties are revalued every five year. However, a revaluation of collateral may be undertaken at any time if either of the following conditions materializes.

* If a sudden price decline of the property held as collateral is ascertained or suspected.
* When a report is received evidencing that the property held as collateral has sustained damages or master plan changes that affects the value of the collateral.
* When noticeable construction is added to the collateral held.
* When the Group decides to foreclose the collateral.

The table below shows the value of collateral held by the Group as a security for loans and bonds granted as at 30 June 2023.

Fair values of collateral held

Category	30-Jun-23 Birr '000
Ministry of Finance	783,077,456
Building	113,223,892
Machinery	12,408,314
Business Mortgage	2,528,805
Merchandise	1,444,092
Oil seed	1,100,000
Lease Right	506,586
Government Bond	193,496
Blocked Account	94,894
Coffee plantation	53,124
Vehicle	7,084
Documentary Credit	3,000
Bank Guarantee	520
	914,641,263

4 Financial risk management (continued)

4.c Credit risk (continued)

Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:
• Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
• Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
• Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models and impacts on the measurement of ECL due to changes made to models and assumptions;
• Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
• Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
• Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.
The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Loans and advances at amortised cost - retail customers and employee loans

	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
	Birr '000	Birr '000	Birr '000	Birr '000	Birr '000
Loss allowance as at 01 July 2022	2,133,997	16,881,960	13,772,690	-	32,788,647
Movements with P&L impact					
Transfers:					
- Transfer from stage 1 to stage 2	-	-	-	-	-
- Transfer from stage 1 to stage 3	-	-	123,743	-	123,743
- Transfer from stage 2 to stage 1	-	(1,847,205)	-	-	(1,847,205)
New financial assets originated or bought	4,703,430	-	-	-	4,703,430
Changes in PDs/LGDs/EADs	-	-	-	-	-
Changes to model assumptions	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount[a]	-	-	-	-	-
FX and other movements	-	-	-	-	-
Total net P&L charge during the period	**6,837,427**	**15,034,755**	**13,896,433**	**-**	**35,768,615**
Other movements with no P&L impact					
Transfers:					
- Transfer from stage 2 to stage 3	-	-	-	-	-
- Transfer from stage 3 to stage 2	-	-	-	-	-
Financial assets derecognised	-	-	-	-	-
Write-offs	-	-	-	-	-
Loss allowance as at 30 June 2023	**6,837,427**	**15,034,755**	**13,896,433**	**-**	**35,768,615**

4 Financial risk management (continued)

4.c Credit risk (continued)

Investment securities at amortised cost

	Stage 1 12 month ECL Birr '000	Stage 2 Lifetime ECL Birr '000	Stage 3 Lifetime ECL Birr '000	Purchased credit-impaired Birr '000	Total Birr '000
Loss allowance as at 01 July 2022	6,233,868	-	-	-	6,233,868
Movements with P&L impact					
Transfers:					
- Transfer from stage 1 to stage 2	-	-	-	-	-
- Transfer from stage 1 to stage 3	-	-	-	-	-
- Transfer from stage 2 to stage 1	-	-	-	-	-
New financial assets originated or bought	4,927,706	-	-	-	4,927,706
Changes in PDs/LGDs/EADs	-	-	-	-	-
Changes to model assumptions	-	-	-	-	-
Modification of contractual cash flows of financial assets	-	-	-	-	-
Unwind of discount(a)	-	-	-	-	-
FX and other movements	-	-	-	-	-
Total net P&L charge during the period	11,161,574	-	-	-	11,161,574
Other movements with no P&L impact					
Transfers:					
- Transfer from stage 2 to stage 3	-	-	-	-	-
- Transfer from stage 3 to stage 2	-	-	-	-	-
Financial assets derecognised	-	-	-	-	-
Write-offs	-	-	-	-	-
Loss allowance as at 30 June 2023	11,161,574	-	-	-	11,161,574

Other financial assets at amortised cost

	Stage 1 12 month ECL Birr '000	Stage 2 Lifetime ECL Birr '000	Stage 3 Lifetime ECL Birr '000	Purchased credit-impaired Birr '000	Total Birr '000
Loss allowance as at 01 July 2022	1,429,109	-	-	-	1,429,109
Movements with P&L impact					
Transfers:					
- Transfer from stage 1 to stage 2	-	-	-	-	-
- Transfer from stage 1 to stage 3	-	-	-	-	-
- Transfer from stage 2 to stage 1	-	-	-	-	-
New financial assets originated or bought	1,505,943	-	-	-	1,505,943
Changes in PDs/LGDs/EADs	-	-	-	-	-
Changes to model assumptions	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount(a)	-	-	-	-	-
FX and other movements	-	-	-	-	-
Total net P&L charge during the period	2,935,052	-	-	-	2,935,052
Other movements with no P&L impact					
Transfers:					
- Transfer from stage 2 to stage 3	-	-	-	-	-
- Transfer from stage 3 to stage 2	-	-	-	-	-
Financial assets derecognised	-	-	-	-	-
Write-offs	-	-	-	-	-
Loss allowance as at 30 June 2023	2,935,052	-	-	-	2,935,052

(a) - The unwind of discount on Stage 3 financial assets is reported within ' interest income' so that interest income is recognised on the amortised cost (after deducting the ECL allowance).

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:
i) The high volume of new business loans originated during the period, aligned with CBE's organic growth objective, increased the gross carrying amount of the business loan book by 13%, with a corresponding Birr 1,505.94 million increase in loss allowance measured on a 12-month basis.

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4 Financial risk management (continued)

4.c Credit risk (continued)

Write off policy

The Group's subsidiary, CBE determines the write-off of a loan or group of loans demonstrating non-recoverability. This determination is made after performing an analysis of the financial conditions from the date of default and the likelihood of recovering such loans.

As per the credit procedure a loan is written-off when CBE exhausts all means to recover the outstanding loan. It is uncertain to know how long it will take to get court verdict on litigations to recover the outstanding amount of defaulted loans from other attachable properties registered in the name of the defaulters. Hence, doesn't consider time limit for write-offs. Defaulted loans are written-off immediately after exhausting all means to recover the loan.

After having fully exhausted all possible means for the recovery of loans and advances and after ascertaining that the property held as collateral does not cover the loan in full; and after having ascertained that there is no other attachable property to cover the remaining balance fully or partially, the recovery area shall compile evidence to support that the loan or part of the loan it proposes to write-off is unrecoverable.

Loan write-offs can be initiated for the following reasons:

* Absence of attachable property;
* Insolvency of the borrower;
* Declaration of bankruptcy of the borrower by a court;
* Higher Cost of Recovery than the Realizable Value of the Property;
* Defects in Documentation – if the Bank has no legal ground to sue the borrower because of defects in the contract;
* Court decision; and
* Statute limitation.

Modification of financial assets

The Group's subsidiary, CBE sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.
Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.
The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset (refer to notes 1.2.1.1(iv) and (v) above). CBE monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2
(Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

The subsidiary continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

4.d Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the portfolio subsidiary entity management teams maintain available committed credit lines according to their needs.

Management teams for each portfolio subsidiary entities perform cash flow forecasting and monitor rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the respective subsidiary entity does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Group's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

	Less than 1 year Birr '000	Between 1 and 5 years Birr '000	Over 5 years Birr '000	Total undiscounted Birr '000	Carrying amount Birr '000
At 30 June 2023					
Borrowings	-	-	-	-	387,526,526
Lease liability	-	-	-	-	144,097,165
Trade payables	-	-	-	-	371,978,579
Customer deposits	53,943	2	998,837	-	1,052,782
Contract liabilities	-	-	-	-	140,649,700
	53,943	**2**	**998,837**	**-**	**853,602,270**

4 Financial risk management (continued)

4.d Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The gearing ratios as at 30 June 2023 was as follows:

	2023
	Birr '000
Debt (Note 27)	337,526,526
Less: cash and cash equivalents (Note 25)	(309,274,996)
Net debt (i)	28,251,530
Equity (ii)	797,031,537
Net debt to equity ratio	0.04

(i) Debt is defined as borrowings as detailed in Note 27
(ii) Equity comprises of capital, legal reserve, accumulated losses, other reserves, and non-distributable reserves

4.e Recognised fair value measurements

i) Fair value hierachy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial instruments into the three levels prescribed under the accounting standards.

ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:
a) the use of quoted market prices or dealer quotes for similar instruments,
b) for interest rate swaps – the present value of the estimated future cash flows based on observable yield curves,
c) for foreign currency forwards – the present value of future cash flows based on the forward exchange rates at the reporting date,
d) for foreign currency options – option pricing models (for example, Black-Scholes model), and,
e) for other financial instruments – discounted cash flow analysis.
All of the resulting fair value estimates are included in level 2, except for unlisted equity securities, a contingent consideration receivable and certain derivative contracts, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk. The group did not change any valuation techniques in determining the level 2 and level 3 fair values.

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4 Financial risk management (continued)

4.f Recognised fair value measurements (continued)

iii) Transfers between level 2 and level 3

The group further assessed the need for transfers between levels in the hierarchy, given the uncertain economic environment and considering whether a lack of observable information existed for factors relevant to the value of certain instruments. In 2023, one of the Group's subsidiary entities transferred a hedging foreign currency forward from level 2 into level 3, since the counterparty for the derivative encountered significant financial difficulties. This resulted in a significant increase to the discount rate, which is not based on observable inputs, because it reflects credit risk specific to the counterparty. Credit risk was not considered to be a significant input factor in previous years.

iv) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements (see (ii) above for the valuation techniques adopted) and how a reasonable change in the input would affect the fair value:

Description	Fair value at 30 June 2023 Birr' 000	Un-observable input	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Unlisted equity securities	1,150	Earnings growth factor and Risk-adjusted discount rate	9%–11% (10%)	Increased earnings growth factor (+50 basis points (bps)) and lower discount rate (-100 bps) would increase FV by ETB 70,000; lower growth factor (-50 bps) and higher discount rate (+100 bps) would decrease FV by ETB 80,000
Trading derivatives	(335)	Credit default rate	25%	A shift of the credit default rate by +/- 5% results in a change in FV of ETB 30,000.

iv) Valuation process

The finance department of the Group's subsidiaries includes a team that performs the valuations of financial items required for financial reporting purposes, including level 3 fair values. This team reports directly to the Group's finance team and the Group's chief financial officer (CFO). Discussions of valuation processes and results are held between the GCFO, Group Finance team, Group subsidiary finance team and the valuation team at least once every six months, in line with the group's half-yearly reporting periods.

The main level 3 inputs used by the group are derived and evaluated as follows:
a) Discount rates for financial assets and financial liabilities are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time valueof money and the risk specific to the asset.
b) Risk adjustments specific to the counterparties (including assumptions about credit default rates)are derived from credit risk gradings determined by the Group's subsidiary's internal credit risk management group.
c) Earnings growth factors for unlisted equity securities are estimated based on market information for similar types of companies.
d) Contingent consideration – expected cash inflows are estimated based on the terms of the sale contract and the entity's knowledge of the business and how the current economicenvironment is likely to impact it.

Changes in level 2 and level 3 fair values are analysed at the end of each reporting period during the half-yearly valuation discussion, between the Group CFO, Group and Group subsidiary Finance team and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

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5 Revenue from contracts with customers

		2023 Birr '000
5(a) Non-interest revenue		
Sale of goods	5(a)	316,343,514
Rendering of services		509,143,525
		825,487,039

Disaggregation of revenue from contracts with customers

	At a point in time Birr '000	Over time Birr '000
Sale of goods	316,343,514	-
Rendering of services	-	509,143,525
	316,343,514	509,143,525

5(b) Assets and liabilities related to contracts with customers

The group has recognised the following assets and liabilities related to contracts with customers:

	30 June 2023 Birr '000
Current contract assets relating to contracts	9,397,387
Loss allowance	-
Total contract assets	9,397,387
Non-current asset recognised for costs incurred to fulfil a contract	-
Contract liabilities - Advance receipts - air tickets	63,377,501
Contract liabilities - Other advances	46,369,858
Contract liabilities - Margin Accounts and deposits for guarantees	24,501,317
Contract liabilities - Sheba Miles Programme	3,248,044
Contract liabilities - unearned profit share	3,152,980
Contract liabilities	**140,649,700**

i) Significant changes in contract assets and liabilities

Contract assets relate to revenue earned from ongoing logistical services, construction, shipment, rental services, and so on. The group also recognised a loss allowance for contract assets.

Contract liabilities include advances received to deliver goods and services, such as air travel services and loyalty points yet to be redeemed.

i) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods:

	2023 Birr '000
Revenue recognised that was included in the contract liability balance at the beginning of the period	
Contract liabilities - Sheba Miles Programme	2,990,387
Contract liabilities - Advance receipts - aviation services	47,177,054

5(b) Net Interest income

	2023 Birr '000
Interest income	
Loans and advances to customers	33,000,883
Debt securities	55,246,356
Total Interest income calculated under the effective interest rate method	88,247,239
Interest income on lease receivables	-
Total Interest income	88,247,239

	2023 Birr '000
Interest expense	
Interest expense	44,728,009
Other interest expense	-
	44,728,009
Net interest income	**43,519,230**

5(c) Net insurance (loss)/income

	Life risk measured under PAA Birr '000	Life risk measured under GMM Birr '000	Non-Life Birr '000	Total Birr '000
Insurance revenue				
Contracts not measured under the PAA		-	-	-
Amounts relating to changes in liabilities for remaining coverage (LRC)				
- Expected incurred claims and other directly attributable expenses		47,534	-	**47,534**
- Change in the risk adjustment for non-financial risk for the risk expired		1,805	-	**1,805**
- CSM recognised for the services provided		222	-	**222**
- Experience adjustments – arising from premiums received in the period other than those that relate to future service		-	-	-
- Other amounts, including other pre-recognition cash flows assets derecognised at the date of initial recognition		(9,055)	-	**(9,055)**
Insurance acquisition cash flows recovery		438	-	**438**
Insurance revenue from contracts not measured under the PAA	-	40,943	-	40,943
Insurance revenue from contracts measured under the PAA	151,636	-	6,050,953	6,202,590
Total insurance revenue	151,636	40,943	6,050,953	6,243,533

	Life risk measured under PAA Birr '000	Life risk measured under GMM Birr '000	Non-Life Birr '000	Total Birr '000
Insurance service expenses				
Incurred claims	(103,707)	(14,159)	(2,267,154)	**(2,385,020)**
Other directly attributable expenses		(17,232)	-	**(17,232)**
Changes that relate to past service – changes in the FCF relating to the LIC	-	28,268	-	**28,268**
Losses on onerous contracts and reversal of those losses	-	(16,743)	-	**(16,743)**
Insurance acquisition cash flows amortisation	(1,978)	(438)	(65,150)	**(67,566)**
Insurance acquisition cash flows assets impairment, net of reversals	-	-	-	-
Other movements	(405)	-	3,300	**2,895**
Total insurance service expense	**(106,089)**	**(20,304)**	**(2,329,004)**	**(2,455,397)**
Net income (expenses) from reinsurance contracts held				
Reinsurance expenses – contracts not measured under the PAA				
Amounts relating to the changes in the remaining coverage				
- Expected incurred claims and other directly attributable expenses	-	(2,454,162)	-	**(2,454,162)**
- Change in the risk adjustment for non-financial risk for the risk expired	-	-	-	
- CSM recognised for the services received	-	-	-	-
- Experience adjustments – arising from ceded premiums paid in the period other than those that relate to future service	-	-	-	-
Reinsurance expenses – contracts not measured under the PAA	-	(2,454,162)	-	(2,454,162)

5(c) Net insurance (loss)/income (continued)

	Life risk measured under PAA Birr '000	Life risk measured under GMM Birr '000	Non-Life Birr '000	Total Birr '000
Reinsurance expenses – contracts measured under the PAA	-	-	-	-
Other incurred directly attributable expenses	-	-	-	-
Effect of changes in the risk of reinsurers' non-performance	-	-	-	-
Incurred claims recovery	-	-	-	-
Changes that relate to past service – changes in the FCF relating to incurred claims recovery	-	-	-	-
Income on initial recognition of onerous underlying contracts	-	-	-	-
Reinsurance contracts held under the GMM: Reversals of a loss recovery component other than changes in the FCF of reinsurance contracts held	-	-	-	-
Reinsurance contracts held under the GMM: Changes in the FCF of reinsurance contracts held from onerous underlying contracts	-	-	-	-
	-	-	-	-
Total net expenses from reinsurance contracts held	-	(2,454,162)	-	**(2,454,162)**
Total insurance service result	45,547	-2,433,523	3,721,949	1,333,974

6 Cost of sales

	2023 Birr '000
Cost of services	334,384,010
Cost of goods sold	305,984,509
Cost of rental services	659,564
	641,028,083

7 Investment income

	2023 Birr '000
Income from time deposit	183,694
Income from treasury note	9,553
Income from investment in shares	84,142
	277,389

8 Other incomes / other (losses)

	2023 Birr '000
Lease income[b]	1,988,261
Gain or loss on disposal of property, plant and equipment	1,200,658
Miscellaneous	19,130,900
Reversal of Expected Credit Loss	203,886
Reversal of Inventory Write Down	1,363,672
Discount on Concessional Loan	1,181,582
	25,068,959

[b] - Lease income relates to operating lease income collected by one of the Group's subsidiary - the Federal Housing Corporation ("the Corporation) from its 18,371 properties. The rent agreements the Corporation has with such occupants are at prevailing market value and largely leased out to private companies or individuals.

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9 Operating expenses

9(a) General and administrative expenses

	2023 Birr '000
Advertisement & promotion	676,130
Commission and charges	7,401,685
Depreciation and amortization	11,214,408
Donation	1,805,616
Fuel & lubricants	550,916
Insurance	221,942
License charge and registration	704
Loss on write down of inventories	397,734
Miscellaneous Expense	17,151,500
Overflying and Navigation	12,580,056
Professional fees	207,076
Property tax	9,178
Rent expenses	1,272,595
Repair & Maintenance	1,641,036
Salary and Benefits	48,161,949
Service fee	4,603,212
Transport	374,491
Utilities	1,354,565
	109,624,793

9(b) Selling and distribution expense

Advertisement & Promotion	17,585
Commission and Charges	3,252
Depreciation and Amortization	18,410
Fuel & Lubricants	21,064
Insurance	5,800
Miscellaneous Expense	66,944
Rent Expenses	48,509
Repair & Maintenance	35,328
Salary and Benefits	1,341,063
Transport	16,672
Utilities	6,257
	1,580,884

10 Other gains/(losses)

	2023 Birr '000
Gain on foreign exchange	4,313
Loss on foreign exchange	(4,514,916)
Net foreign exchange losses	(4,510,603)

11 Finance income / (cost)

	2023 Birr '000
11(a) Finance income	
Interest income	1,536,897
Foreign exchange gains	-
Other finance incomes	-
	1,536,897
11 (b) Finance costs	
Interest expense	(18,350,846)
Interest expense on lease liabilities	
Bank charges	(411,664)
Foreign exchange losses	-
	(18,762,510)
Finance costs - net	**(17,225,613)**

12 Income tax

12(a) Income tax

(i) Amounts recognised in profit or loss	2023 Birr '000
Current tax	
Current tax on profits for the year	21,250,057
Adjustments for current tax of prior periods	-
Total current tax expense	21,250,057
Deferred income tax	
Decrease/(increase) in deferred tax assets (see note 13)	(1,190,126)
(Decrease)/increase in deferred tax liabilities	-
Total deferred tax expense/(benefit)	(1,190,126)
Income tax	**20,059,931**

(i) Amounts recognised in other comprehensive income

	Before tax Birr '000	Tax Birr '000	Net of tax Birr '000
- Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	9,458,533	-	9,458,533
Share of other comprehensive income of investments accounted for using the equity method	-	-	-
	9,458,533	-	9,458,533
- Items that will not be reclassified to profit or loss:			
Revaluation gain/(loss) of land and buildings	1,691	-	1,691
Remeasurement gain/(loss) on post employment benefits obligations	(46,226)	(2,200)	(48,426)
Changes in the fair value of equity investments at FVOCI	90,712	(27,214)	63,498
Other comprehensive income	-	6,324	6,324
	46,177	(23,090)	23,087

12(b) Reconciliation of tax expense and the accounting profit

	2023 Birr '000
Profit before tax	111,232,035
Tax using the Federal Democratic Republic of Ethiopia rate (30%)	33,369,611
Items which are not deductible (taxable) in calculating taxable income:	
- Depreciation and Amortization per Accounting Policy	20,501,121
- Expected Credit Loss	11,334,336
- Gain on unrealized exchange rate	7,146,169
- Non-taxable corporations (ESIG)	16,924,022
- Provision for Employee Benefits	3,722,800
- Other non allowable expenses	(1,768,262)
- Donation	2,054,273
- Penalty	408,960
- Entertainment	168,928
- Loss on disposal	95,570
	60,587,917
- Non Taxable Income	(51,655,974)
- Income Taxed at Source	(29,287,052)
- Allowable Impairment losses	(6,313,846)
- Reversal of write down of inventories	(4,545,555)
- Depreciation per Tax Law	(3,796,111)
- Gain on Exchange of vehicles	(1,083,083)
- Tax assessment adjustment	(903,379)
- Employee Benefit actually paid during the year	(290,783)
- Other non taxable income	(3,110,647)
	(100,986,430)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:	(12,119,554)
Income tax in the statement of profit or loss	21,250,057

12(c) Current tax payable

	2023 Birr '000
At the start of the year	24,444,730
Tax charge for the year	21,250,057
Advance profit tax paid	(655,655)
Prior year adjustment	187,429
Tax paid	(21,616,340)
At the end of the year	**23,610,221**

13 Property, plant and equipment

	Land, Improvements, and Buildings Birr '000	Plant and Machineries Birr '000	Specialized Equipment Birr '000	Motor Vehicles Birr '000	Furniture and Equipment Birr '000	Other Fixed Asset Birr '000	Bearer Plants Birr '000	Total Birr '000
Cost or fair value								
As at 01 July 2022	315,497,228	101,103,707	388,270,337	16,614,226	17,250,265	7,745,580	1,425,087	847,906,430
Additions	43,652,864	13,127,719	40,691,036	3,137,222	5,440,330	1,952,435	616,411	108,618,017
Transfer/Reclassification*	(28,679,084)	3,721,177	12,140,240	-	17,263	(137,588)	-	(12,937,992)
Adjustment**	2,116,663	1,615	16,608,027	13,391	1,833	(1,465)	-	18,740,064
Disposal	(16,071,130)	(71,220)	(12,872,326)	(114,115)	(92,184)	(92,435)	(486,989)	(29,800,399)
At 30 June 2023	**316,516,541**	**117,882,998**	**444,837,314**	**19,650,724**	**22,617,507**	**9,466,527**	**1,554,509**	**932,526,120**
Accumulated depreciation								
As at 01 July 2022	32,216,636	25,063,405	162,088,882	8,426,511	10,333,943	2,260,582	697,614	241,087,573
Depreciation charge	5,117,144	5,157,525	24,613,367	1,430,273	1,797,576	526,455	197,942	38,840,282
Transfer/Reclassification*	668,332	4,733	43,427	(5,012)	(4,732)	-	-	706,748
Adjustments**	5,161	(1,155)	-	11,577	2,931	2	-	18,516
Disposal	(3,011)	(27,546)	(357,551)	(74,027)	(140,833)	(206,591)	(265,420)	(1,074,979)
At 30 June 2023	**38,004,262**	**30,196,962**	**186,388,125**	**9,789,322**	**11,988,885**	**2,580,448**	**630,136**	**279,578,140**
Net book value								
As at 30 June 2023	**278,512,279**	**87,686,036**	**258,449,189**	**9,861,402**	**10,628,622**	**6,886,079**	**924,373**	**652,947,980**

The group has pledged as security for current and non-current borrowings 8 aircrafts of net carrying amount of Birr 29.2 Billion.

14 Investment properties

	2023 Birr '000
Cost	
At the start of the year	59,468,046
Additions	1,708,293
Disposal	-
At the end of the year	61,176,339
Accumulated depreciation	
At the start of the year	353
Depreciation charge for the year	30,173
Disposal	-
At the end of the year	30,526
Net book value	**61,145,813**

15 Deferred tax balances

15(a) Deferred tax Liabilities (Asset)

Deferred taxation is calculated on all temporary differences using the enacted principal tax rate of 30% and 25%. The temporary difference is a result of difference in tax base which arises from revaluation of PPEs and difference in tax rates of depreciation of property plant and equipment and difference in accounting for pre-operational expenditure and post-employment benefit obligation for financial reporting and tax purpose. Out of the 26 subsidiaries, one subsidiary (EMC) is subject to a different tax rate, with a corporate tax applied at 25%. The movement in deferred income tax assets (liabilities) and deferred income tax charge/(credit) in profit or loss are as follows:

Deferred tax liabilities (assets)	**As at 01 July 2022 Birr '000**	**Charge / (credit) Birr '000**	**As at 30 June 2023 Birr '000**
Property, Plant, and Equipment temporary difference	21,712,865	22,511,688	44,224,553
Investment Property	13,363	206,669	220,032
Trade Receivable (Expected Credit Loss)	(819,322)	(18,702,933)	(19,522,255)
Trade and Other Payable	(4,024,838)	56,433	(3,968,405)
Employee Benefit Obligation	(1,614,771)	(9,757,428)	(11,372,199)
Provisions	(344,566)	(362,584)	(707,150)
Investment in securities	195,936	585,804	781,740
Lease Obligations	(778,348)	(158,409)	(936,757)
Right Use of Asset	1,604,527	247,450	1,851,977
Non Current asset held for sales	10,794	(3,407)	7,387
Intangible asset	1,201,761	(226,814)	974,947
Exchange differences on translating the net assets of foreign operations	735,420	77,950	813,370
Other assets	(484,544)	(525,886)	(1,010,430)
Borrowings	329,160	(326,004)	3,156
Inventories	(5,500,660)	2,316,193	(3,184,467)
Total Temporary Difference	**12,236,776**	**(4,061,277)**	**8,175,499**
Deferred tax asset 30% & 25%	**3,625,979**	**(1,216,311)**	**2,409,668**

16 Leases

i) Right of use asset

	Aircraft lease Birr '000	Land Birr '000	Building Birr '000	Total Birr '000
Cost				
Balance at start of the year	148,820,898	8,233,979	10,600,917	167,655,794
Additions	22,861,124	179,968	2,447,322	25,488,414
Transfer/Reclassification	-	(5)	241,878	241,873
Adjustment	-	(1,197)	(313,377)	(314,574)
Currency retranslation	5,744,258	-	-	5,744,258
Disposal	-	-	(26,044)	(26,044)
Balance at end of the year	**177,426,280**	**8,412,745**	**12,950,696**	**198,789,721**
Accumulated depreciation				
Balance at start of the year	19,324,567	64,221	4,854,966	24,243,754
Charge for the year	21,514,064	8,781	2,105,969	23,628,814
Transfer/reclassification	-	-	-	-
Adjustments	-	(86)	(330,164)	(330,250)
Disposal	-	-	(26,044)	(26,044)
Balance at end of the year	**40,838,631**	**72,916**	**6,604,727**	**47,516,274**
Net Book Value	**136,587,649**	**8,339,829**	**6,345,969**	**151,273,447**

Right-of-use asset is depreciated on a straight line basis over the term of the lease. The group applies IAS 36 - Impairment of assets on the Right-of-use asset the same way as in property, plant and equipment.

ii) Lease liability

	2023 Birr '000
Balance at start of the year	135,524,435
Additions in the year	20,588,461
Lease remeasurements	192,761
Interest expense	4,837,960
	161,143,617
Repayments in the year	(17,046,452)
Balance at end of the year	**144,097,165**
Current	22,250,076
Non-current	121,847,089
	144,097,165

The lease liability represents the present value of expected future lease payments by the Company to the Lessors. The discounting rate applied by the Company is 10% p.a which is assumed to be a representative of the Company's incremental borrowing rate. The leased assets assessed under this section are assumed to be a similar class and hence application of a standard incremental borrowing rate.

iv) Amounts recognised in the statement of profit or loss
The statement of profit or loss shows the following amounts relating to leases:

	2023 Birr '000
Depreciation charge right-of-use assets	24,243,754
Interest expense (included in finance costs)	4,804,912
	29,048,666

v) Amounts recognised in the statements of cash flows

Cash generated from operations - Interest paid	(4,804,912)
Cash generated from financing activities - lease payments	(12,241,540)

Ethiopian Investment Holdings

17 Intangible assets

	Licenses Birr '000	Software Birr '000	intangibles Birr '000	Total Birr '000
Cost				
At start of the year	759,409	6,751,152	442,132	7,952,693
Additions	8,678	575,051	82,974	666,703
Transfer/Reclassification*	-	-	89,360	89,360
Adjustment**	-	-	(142,375)	(142,375)
Disposal	-	(435)	-	(435)
At the end of the year	**768,087**	**7,325,768**	**472,091**	**8,565,946**
Accumulated amortisation				
At start of the year	322,674	3,996,609	67,874	4,387,157
Charge for the year	80,414	517,749	169,570	767,733
Transfer/Reclassification*	-	-	-	-
Adjustments*	-	-	(67,639)	(67,639)
Disposal	-	-	-	-
At the end of the year	**403,088**	**4,514,358**	**169,805**	**5,087,251**
Net book value	**364,999**	**2,811,410**	**302,286**	**3,478,695**

18 Investment in associates and joint ventures

	2023 Birr '000
Investment in associates	2,384,825
	2,384,825

Individually immaterial associates

The Group does not hold any individually material interests in associates. However, it maintains interests in several individually immaterial associates through its subsidiaries, all of which are accounted for using the equity method.

	2023 Birr '000
Aggregate carrying amount of individually immaterial associates	2,355,377
Aggregate amounts of the group's share of:	
Profit from continuing operations	918,853
Post-tax profit or loss from discontinued operations	
Other comprehensive income	
Total comprehensive income	**918,853**
Share of profit of associates	**116,836**

19 Investment in securities

	2023 Birr '000
Financial asset measured at amortized cost	799,522,393
Financial Asset measured at FVOCI	2,385,731
Financial asset measured at FVTPL	-
Gross investment in securities	801,908,124
Allowance for Impairment Losses'-Debt and Equity instruments	(11,161,587)
Total	**790,746,537**
Current	-
Non-current	790,746,537
	790,746,537

20 Loans and advances

	2023 Birr '000
Loans and advances at amortized cost	363,695,148
Allowance for Impairment Losses-Loans and advances	(35,768,615)
	327,926,533
Non-current portion	327,837,826
Current portion	88,707
	327,926,533

21 Standing deposits

These are deposits for security, aircraft lease, hotel, hospital, and similar purposes. It also includes pre delivery payment for aircraft purchase

(a) Standing deposit movement

	2023 Birr '000
Security deposit	8,821,682
Deposit for pre-delivery payment for aircraft purchase	18,028,163
Less effects on translation from functional to presentation currency	(56,085)
	26,793,760

(b) Pre-delivery aircraft schedule

The deposit relates to Pre-delivery payment for aircraft purchase represent amount paid to Boeing and Airbus in relation to B777F, B737 MAX & A350 aircrafts. The delivery schedule is as follows:

	2023 Birr '000
Within one year	10,467,665
Between 2 and 5 years	7,560,498
After 5 years	-
	18,028,163

22 Biological assets

	Forest Assets Birr '000	Field Crops Birr '000	Biological Asset - Cane Birr '000	Biological Asset - Fruit Birr '000	Total Birr '000
At start of the year	297606	39,709	4,882,808	48,052	5,268,175
Additions		18,302	-	-	18,302
Transfer		(33,421)	622,685	64,591	653,855
Adjustment/Impairment	(297,606)	-	-	-	(297,606)
Sales		-	-	-	-
At the end of the year	**-**	**24,590**	**5,505,493**	**112,643**	**5,642,726**
Non-current	-	-	-	-	-
Current	-	24,590	5,505,493	112,643	5,642,726
	-	**24,590**	**5,505,493**	**112,643**	**5,642,726**

23 Inventory

	2023 Birr '000
Finished Goods	2,996,242
Goods in Transit	9,226,694
Raw Materials and Consumables	8,371,276
Spare Parts	19,057,005
Work in Process	293,096
Merchandise	28,022,639
Other Stocks	27,808,605
Gross carrying amount	**95,775,557**
Provision for written down inventory	(3,956,437)
	91,819,120

The carrying amount of the inventory reached 101.39 billion under EIH group and subsidiaries. The inventories include raw materials, work in Progress, finished goods, merchandise, etc.

As of June 30, 2023, inventories had a gross carrying amount of 101.39 billion, with an allowance for the write-down of 3.95 billion resulting in a net inventory value of 97.44 billion

24 Trade and other receivables

	2023 Birr '000
Financial assets at amortised cost	
Trade debtors	64,328,524
Advance and Claims	68,695,634
Staff Debtors	1,638,894
Sundry Debtors	245,806,998
Tax Receivables	10,482,882
	390,952,932
Less: Expected credit losses	(31,586,667)
	359,366,265

25 Cash and cash equivalents

	2023 Birr '000
Cash at bank	299,150,744
Cash on hand	16,582,744
Investment in Treasury Bill	6,913,600
Investment in short-term securities	
Expected credit losses	(13,372,092)
	309,274,996

For the purpose of the cash flow statement, cash and cash equivalent is made up of the following.

Cash at Bank	299,150,744
Cash on Hand	16,582,744
Investment in Treasury Bill	6,913,600
Investment in short-term securities	-
	322,647,088

26 Assets classified as held for sale	Buildings	Moveable plant & machinery	Total
	Birr '000	Birr '000	Birr '000
Fair value less cost of disposal			
As at 01 July 2022	785,464	273,794	1,059,258
Additions	130,105	35,135	165,240
Sales/Disposal	(825,257)	(264,133)	(1,089,390)
As at 30 June 2023	90,312	44,796	135,108
Accumulated impairment			
As at 01 July 2022	(24)	(176,285)	(176,309)
Disposal	-	88,271	88,271
As at 30 June 2023	(24)	(88,014)	(88,038)
Assets held for sale	90,288	(43,218)	47,070

27 Borrowings	2023
	Birr '000
Non Current	
Long term borrowings	337,301,402
Total non current borrowings	**337,301,402**
Current	
Bank overdraft	225,124
Term Borrowings - Current Portion	-
Total current borrowings	225,124
Total borrowings	**337,526,526**
Reconciliation of term loan	
Opening Balance	456,053,398
Additional borrowings in the period	58,619,205
Accrued interest expense	6,864,395
Repayment during the period	(191,922,851)
Foreign exchange differences	4,126,615
Effect on translation from functional to presentation currency	3,785,764
	337,526,526

Birr 137.1 billion Loans from foreign lending institutions secured on aircraft bearing interest at rate of between 0.35% and 7.35% per annum and repayable in quarterly instalments.
All Ethiopian airlines aircraft and project loans are secured loan from foreign lending institutions and development agencies, bearing interest at a rates of between 2.38% and 4.66% per annum, and repayable in mainly quarterly instalment.

The long term loan in relation to industrial development fund is secured from FDRE Ministry of Finance Birr 12.9 billion and recognized up on disbursement from the bank at the fair value of the consideration received translated into birr at the exchange rate ruling at date on which the loan is disbursed. The Borrowings are repayable 20 to 26 years.

The group has taken the rest of the loan from other domestic banks.

In order to fill the short term working capital needs the group borrowed Birr 225 Million in the form of overdraft facilities.

Ethiopian Investment Holdings

28 Reinsurance and insurance contract assets and liabilities

	30 June 2023 Assets Liabilities
Insurance contracts	
Life — GMM	225,619
Life—PAA	133,221
Non-life	7,375,286
Total insurance contracts	**7,734,126**
Reinsurance contracts	
Life - GMM	-
Life - PAA	8,633
Non-life	3,654,486
Total reinsurance contracts	**3,663,119**

(a) Movements in carrying amounts

The following reconciliations show how the net carrying amounts of insurance and reinsurance contracts in each segment changed during the year as a result of cash flows and amounts recognized in the statement of profit or loss.

The table below separately analyse movements in the liabilities for remaining coverage and movements in the liabilities for incurred claims and reconciles these movements to the line items in the statement of profit or loss.

A second reconciliation is presented for contracts not measured under the PAA, which separately analyses changes in the estimates of the present value of future cash flows, the risk adjustment for non-financial risk and the CSM.

The estimates of the present value of the future cash flows from insurance and reinsurance contract assets represent the Corporation's maximum exposure to credit risk from these assets.

Insurance contracts

Analysis by remaining coverage and incurred claims

	As at 30 June 2023 Liabilities for remaining coverage			
	Excluding loss component Birr '000	**Loss component Birr '000**	**Liabilities for incurred claims Birr '000**	**Total Birr '000**
Opening liabilities	159,754,421	56,492,972	1,557,784	217,805,177
Net opening balance	**159,754,421**	**56,492,972**	**1,557,784**	**217,805,177**
Changes in the statement of profit or Insurance revenue	-	-	-	-
Contracts under the modified retrospective approach	11,575,277	-		11,575,277
Other contracts	29,368,209			29,368,209
Total insurance service revenue	**40,943,486**	**-**	**-**	**40,943,486**
Insurance service expenses				
Incurred claims and other insurance service expenses	764,284	(6,481,241)	46,163,315	40,446,358
Amortisation of acquisition cash flows	438,016			438,016
Losses on initial recognition of insurance contracts		7,687,690		7,687,690
Changes in estimates of future cash flows and other current period variances (if not offset against the CSM)	(6,474,580)	(21,793,429)		(28,268,009)
Total Insurance Service Expenses	**(5,272,280)**	**(20,586,980)**	**46,163,315**	**20,304,055**
Insurance service result	**46,215,767**	**20,586,980**	**(46,163,315)**	**20,639,432**
Net finance expenses from insurance contracts	8,198,826	1,810,325		10,009,151
Total changes in the statement of profit or loss	**38,016,941**	**18,776,655**	**(46,163,315)**	**10,630,281**
Cash flows				
Premiums received	68,022,667			68,022,667
Claims and other insurance service expenses paid	-	-	(46,236,209)	(46,236,209)
Insurance acquisition cash flows	(3,342,008)	-	-	(3,342,008)
Total cash flows	**64,680,659**	**-**	**(46,236,209)**	**18,444,450**
Net closing balance	**186,418,139**	**37,716,317**	**1,484,890**	**225,619,346**

28 Reinsurance and insurance contract assets and liabilities (continued)

Analysis by measurement component - Life PAA

	As at 30 June 2023			
		Liabilities for incurred claims Contracts under PAA		
	Liabilities for remaining coverage Birr '000	Estimates of present value of future cash flows Birr '000	Risk adjustment for non-financial risk Birr '000	Total Birr '000
Opening Liabilities	65,889,711	7,551,096	27,754,310	101,195,117
Changes in the statement of profit or loss				
Insurance revenue	(151,636,346)	-	-	(151,636,346)
Insurance service expense				
Incurred claims and other insurance service expenses		103,714,722		103,714,722
Amortisation of insurance acquisition cash flows	1,977,629			1,977,629
Adjustments to liabilities for incurred claims		(8,001)	404,895	396,894
	1,977,629	103,706,721	404,895	106,089,245
Insurance service result	(149,658,717)	103,706,721	404,895	(45,547,101)
Net finance expenses from insurance contracts		247,363		
Total changes in the statement of profit or loss	(149,658,717)	103,954,084	404,895	(45,547,101)
Cash flows				
Premiums received	179,216,490			179,216,490
Claims and other insurance service expenses paid		(99,913,129)		(99,913,129)
Insurance acquisition cash flows	(1,977,629)			(1,977,629)
Total cash flows	177,238,861	(99,913,129)	-	77,325,732
Closing liabilities	93,469,855	11,592,051	28,159,205	133,221,111

Reinsurance contracts

Analysis by remaining coverage and incurred claims

Analysis by measurement component - Life PAA

	As at 30 June 2023			
		Incurred claims component		
	Remaining coverage component Birr '000	Estimates of present value of future cash flows Birr '000	Risk adjustment for non-financial risk Birr '000	Total Birr '000
Opening assets	5,911,687	1,185,116	19,410	7,116,213
Changes in the statement of profit or loss				
Net expenses from reinsurance contracts	(10,392,570)	7,120,293	15,452	(3,256,825)
Net finance income from reinsurance contracts		13,440		13,440
Total changes in the statement of profit or loss	(10,392,570)	7,133,733	15,452	(3,243,385)
Cash flows				
Premiums paid	12,730,144			12,730,144
Amounts received		(7,943,346)		(7,943,346)
Total cash flows	12,730,144	(7,943,346)	-	4,786,798
Closing assets	8,249,261	375,503	34,862	8,659,626

28 Reinsurance and insurance contract assets and liabilities (continued)

(ii) Non-life

		As at 30 June 2023		
		Liabilities for incurred claims - contracts under PAA		
	Liabilities for remaining coverage Birr '000	Estimates of present value of future cash flows Birr '000	Risk adjustment for non-financial risk Birr '000	Total Birr '000
Opening liabilities	4,292,871,293	4,005,136,046	183,908,884	8,481,916,223
Changes in the statement of profit or loss				
Insurance revenue	(6,806,681,500)	-	-	(6,806,681,500)
Insurance service expenses				
Incurred claims and other insurance service expenses		2,267,153,564		2,267,153,564
Amortisation of insurance acquisition cash flows	65,150,298			65,150,298
Adjustments to liabilities for incurred claims			1,799,132	1,799,132
	65,150,298	2,267,153,564	1,799,132	2,334,102,994
Insurance service result	**(6,741,531,202)**	**2,267,153,564**	**1,799,132**	**(4,472,578,506)**
Net finance expenses from insurance contracts		151,328,369		151,328,369
Total changes in the statement of profit or loss	(6,741,531,202)	2,418,481,933	1,799,132	(4,321,250,137)
Cash flows				
Premiums received	6,678,451,728			6,678,451,728
Claims and other insurance service expenses paid		(3,398,681,551)		(3,398,681,551)
Insurance acquisition cash flows	(65,150,298)			(65,150,298)
Total cash flows	**6,613,301,430**	**(3,398,681,551)**	**-**	**3,214,619,879**
Closing liabilities	**4,164,641,521**	**3,024,936,428**	**185,708,016**	**7,375,285,965**

Reinsurance contracts

		As at 30 June 2023		
		Incurred claims component		
	Remaining coverage component Birr '000	Estimates of present value of future cash flows Birr '000	Risk adjustment for non-financial risk Birr '000	Total Birr '000
Opening assets	**2,944,494,057**	**2,308,011,953**	**39,714,524**	**5,292,220,535**
Changes in the statement of profit or				
Net expenses from reinsurance contracts	(3,378,342,764)	899,013,423	(5,028,988)	(2,484,358,329)
Net finance income from reinsurance contracts		92,397,510		92,397,510
Total changes in the statement of profit or loss	**(3,378,342,764)**	**991,410,933**	**(5,028,988)**	**(2,391,960,819)**
Cash flows				
Premiums paid	2,973,961,174			2,973,961,174
Amounts received		(2,219,734,936)		(2,219,734,936)
Total cash flows	**2,973,961,174**	**(2,219,734,936)**	**-**	**754,226,238**
Closing assets	**2,540,112,467**	**1,079,687,950**	**34,685,536**	**3,654,485,954**

29 Employee benefit obligations

	2023 Birr '000
Annual Leave Payable	3,350,869
Other long term benefits	6,516,685
Severance Obligation	7,516,970
Total	**17,384,524**

Maturity analysis

	2023 Birr '000
Current	3,350,869
Non-Current	14,033,655
	17,384,524

29 (a) Defined benefit plans

The Company operates an unfunded severance pay plan for its employees who have served the Company for 5 years and above and are below the retirement age (i.e. has not met the requirement to access the pension fund). The final pay-out is determined by reference to current benefit's level (monthly salary) and number of years in service and is calculated as 1 month salary for the first year in employment plus 1/3 of monthly salary for each subsequent year in employment to a maximum of 12 months final monthly salary.

Below are the details of movements and amounts recognised in the financial statements:

		2023 Birr '000
A	Liability recognised in the financial position	7,516,970

Ethiopian Investment Holdings
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29 Employee benefit obligations (continued)

B Amount recognised in other comprehensive income: (continued)

The significant actuarial assumptions were as follows:

Financial Assumption Long term Average	
Discount Rate (p.a)	24.12%
Salary Increase Rate (p.a)	18.12%

C Defined benefit obligations

Withdrawal from Service

The withdrawal rates are believed to be reasonably representative of the Ethiopian experience. The valuation assumed a rate of withdrawal of 6% at the youngest working population ages and increasing with increasing age to 10% at age 57.

The sensitivity of the overall defined benefit liability to changes in the weighted principal assumption is:

	2023	
Change in assumption	Impact of an increase	Impact of a decrease
	Birr '000	Birr '000
1%	828	(770)
1%	(729)	793

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the severance pay liability recognised within the statement of financial position. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

30 Deposit at amortized cost

	2023
	Birr '000
Demand Deposit	263,422,407
Deposits due to other banks	1,708,903
Interest free Banking Deposit	90,430,887
Saving Deposit	582,488,771
Term Deposit	8,241,138
	946,292,106

31 Trade and other payables

Trade Creditors	230,887,457
Taxes and Pension Payables	12,947,281
Sundry Creditors	80,682,553
Accrued liabilities	46,258,315
Advance from Customers	918,948
Staff Creditors	209,795
Dividend payable	74,230
	371,978,579

The average credit period on purchases of certain goods from suppliers is 2 months. No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Ethiopian Investment Holdings

32 Provisions

A reconciliation of the changes in provisions is as follows:

	2023 Birr '000
Litigation payable	2,114,174
Provisions for Bonus	2,346,024
Provisions for Commitments	150,872
Provisions for maintenance	2,583,049
	7,194,119
Maturity	
Current	7,194,119
Non-Current	-
	7,194,119

Movement in provisions :	**Litigation payable Birr '000**	**Provision for Bonus Birr '000**	**Provision for Birr '000**	**Provision for Birr '000**	**Total Birr '000**
Balance at start of the year	1,459,171	2,556,139	2,128,642	-	6,143,952
Provision in the year	655,003	-	-	2,583,049	3,238,052
Reversals		(210,115)	(1,977,770)		(2,187,885)
Balance at the end of the yea	**2,114,174**	**2,346,024**	**150,872**	**2,583,049**	**7,194,119**

33 Paid up Capital

Ethiopian Investment Holdings is wholly owned by the Government of the Federal Democratic Republic of Ethiopia.

	2023 Birr '000
Paid up capital at start of the year	625,668,910
Capital contribution	-
At the end of the year	625,668,910

34 Legal reserve

The legal reserve is a statutory reserve. The legal reserve is accumulated by transferring a portion of annual profits to the reserve.

35 Other reserves

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.
The fair value reserve relates to the cumulative net change in the fair value of equity securities designated at FVOCI and the cumulative net change in fair value of debt securities at FVOCI until the assets are derecognised or reclassified. This amount is adjusted by the amount of the loss allowance.

Ethiopian Investment Holdings

36 Retained earnings

Accumulated losses relates to accumulated profit or losses made by the Group.

37 Non-controlling interest

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

39 (a) Cash generated from operating activities	Notes	2023 Birr '000
Profit for the period		111,232,035
Adjustments:		
Depreciation of property, plant and equipment	13	38,840,282
Depreciation of investment property	14	30,173
Depreciation of right-of-use assets	16	23,628,814
Amortisation of intangible assets	17	767,733
Net gain on termination of intangible assets	18	(14,189)
Other movements in biological assets	22	(356,249)
Interest expense on borrowings	27	6,864,395
Interest expense on leases	16	4,837,960
Share of profits of equity-method investees	18	(918,853)
Net foreign exchange (gains) / losses	11	(9,146,034)
Changes in working capital:		
-Decrease/ (Increase) in inventories		(9,483,820)
-Decrease/ (Increase) in trade and other receivables		(25,876,828)
-Decrease/(increase) in contract assets		956,648
-Decrease in other operating assets		(102,189,515)
-Decrease in other operating liabilities		54,283,170
-Increase/ (Decrease) in employee benefit obligations		3,372,593
-Increase/ (Decrease) in other operating liabilities		54,283,170
-Increase/ (Decrease) in contract liabilities		46,082,349
-Increase/ (Decrease) in trade and other payables		2,777,219
-Increase in other provisions		1,050,167
		201,021,220

39 (b) Cash generated from operating activities	2023 Birr '000
Non-cash investing and financing activities disclosed in other notes are:	
Capital contribution arising from conversion of borrowings to capital (Note 2:	-
Interest capitalized in capital work in progress for the year (Note 17)	-
Capital contribution arising from freehold land (Note 22)	-
Acquisition of property, plant and equipment through borrowings (Note 14)	(108,618,017)
	(108,618,017)

40 Related party transactions

The Group is wholly owned by the Federal Democratic Republic of Ethiopia. In accordance with IAS 24, the Group considers the government and other entities controlled, jointly controlled, or significantly influenced by the same government as related parties.

During the year, the Group entered into transactions with government-related entities in the ordinary course of business. These transactions were conducted on an arm's length basis unless otherwise disclosed.

Exemptions and Disclosures

As a government-related entity, EIH benefits from specific exemptions under IAS 24 to reduce the burden of extensive disclosures related to transactions with other government-related entities. According to IAS 24.20-21, entities that are controlled, jointly controlled, or significantly influenced by the government are not required to disclose details of transactions with other government-related entities unless:

* The disclosures are required by law or regulation.
* The transactions are not collectively or individually insignificant.
* Disclosure of such transactions would be necessary to understand the financial statements.

EIH recognizes that many transactions with government-related entities are routine and may not require detailed disclosure under the standard. Therefore, EIH has opted to exempt itself from disclosing comprehensive details of these transactions unless mandated by applicable laws or regulations, or if the transactions are material.

EIH still discloses the nature of its relationship with the government and any significant transactions where appropriate, ensuring transparency and compliance with applicable legal requirements.

40 a) *Key management compensation*

Key management has been determined to be the members of the management board and the executive management of the Company. The compensation paid or payable to key management is shown below.

Compensation of the Company's key management personnel includes salaries, non-cash benefits and contributions to the post-employment defined benefits plans were 2,658,783.84.

40 b) Employees

The approximate number of persons (excluding management board members) employed by the Group and its subsidiaries during the year was 186,000.

41 Contingent liabilities and contingent assets

(a) Contingent liabilities

The Group is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations. The Group considers it to be probable that the some judgements will not be in its favour and should therefore recognise a provision in relation to these claims. The potential undiscounted amount of the total payments that the Group could be required to make if there was an adverse decision related to the lawsuit is estimated to be approximately Birr 775 million.

(b) Contingent assets

The Group has initiated legal proceedings against multiple third parties. The potential claim from the settlement of these cases is estimated at Birr 1,691 million.

42 Date of authorisation for issue

The Board authorised the issue of these financial statements on 14 March 2026. These statements have been prepared based on audited financial figures obtained from the respective entities, and therefore reflect information that has already been subject to independent verification. However, the consolidation and final validation at the group level are still in progress, as the group-level audit is currently being undertaken by the external auditors. Accordingly, the figures presented in these statements remain subject to final adjustments, if any, that may arise upon completion of the ongoing group audit process

43 Events after reporting period

In preparing these consolidated financial statements, the Group evaluated events occurring between the reporting date and 14 March 2026, the date on which the financial statements were authorized for issue.

I) Foreign exchange regime reform

Subsequent to the reporting date, the Government of Ethiopia and the National Bank of Ethiopia introduced reforms to the foreign exchange regime, including a transition from a more administratively managed exchange rate system toward a market-based or floating exchange rate framework. This development may affect the Group's future foreign currency denominated transactions, foreign currency balances, import costs, financing arrangements, and the valuation of assets and liabilities denominated in foreign currencies. As these changes occurred after the reporting date, they have not resulted in adjustments to the amounts recognized in these financial statements. Management continues to monitor the impact of these regulatory changes on the Group's operations, cash flows, and financial position.

Ongoing assessment

Management has considered all events occurring after the reporting period and up to the date of authorization of these financial statements. Except as disclosed above, no other material adjusting or non-adjusting events were identified that would require recognition or disclosure in these consolidated financial statements.

II) Expanded Ownership

Subsequent to the reporting date of June 30, 2023, and prior to the authorization of these consolidated financial statements on March 14, 2026, the Group significantly expanded its ownership and management mandate over additional state-owned enterprises

On 16 November 2024, following a decision of its Board of Directors and pursuant to Council of Ministers Regulation No. 487/2022, Article 8, certain enterprises previously under the Public Enterprises Holding and Administration would be placed under the ownership and management of EIH. A summary of the expanded portfolio composition is provided below:

Name of Enterprise	Effective Interest (%)
Ethio Post	100
Ethio Engineering Group (EEG)	100
Ethiopian Industrial Inputs Development Enterprise (EIIDE)	100
Ethiopian Railway Corporation (ERC)	100
Industrial Parks Development Corporation (IPDC)	100
Development Bank of Ethiopia (DBE)	100
Ethiopian Electric Power (EEP)	100
Ethio Bio Pharma Group, including National Veterinary Institute (NVI) and Shield Vax	100
AMCE	30
Africa Juice	14
Abijata Shala Soda Ash	45
BM textile	34

Management has evaluated this matter in accordance with IAS 10 and determined that it is a non-adjusting event, since it arose after the reporting date and does not provide evidence of conditions that existed at 30 June 2023. Accordingly, no adjustment has been made to the carrying amounts recognised in these financial statements.

This event is considered material for disclosure because it is expected to affect the scale of EIH's portfolio, the scope of its governance and oversight responsibilities, and its future operating and financial performance.